US Dollar: Requiring a higher loyalty to strengthen

The White House remains front-and-centre for global markets though FX trading remains dormant

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USD: Dormant FX markets lack direction in a world of Trumpian uncertainties

Coordinated air strikes between the US, UK and France on Syria over the weekend have barely rattled dormant FX markets. Equally, the US Treasury's FX report may have slid under investors' noses – though admittedly it was a 'damp squib' given that major trading partners were only included in the analysis (Thailand was saved). But the relative inaction in the FX and bond market space may just be down to sheer confusion in a world of Trumpian uncertainties. We pinpoint five US policy themes – each of which have conflicting economic implications that might well have rendered FX investors in a state of passivity: (1) trade wars; (2) geopolitics; (3) the 'FAANG' crackdown; (4) a Fed policy misstep; and (5) a US fiscal blowout. While a forthcoming note will discuss this in more detail, the bottom line is that global markets lack any clear direction under these five Trumpian uncertainties. Risky assets may continue to see shallow corrections, though a 'buy-the-dip' mentality will endure if sell-offs are not a result of a broader shift in economic fundamentals. The US dollar may consolidate in this uncertain world, but the structural downside factors still outweigh and point to a further 5-10% multi-year decline.

EUR: Returning investor confidence is key for the pro-cyclical EUR bull trend

For pro-cyclical currencies like the Euro, the next set of business confidence and expectations data will be vital – especially ahead of the April ECB meeting next week. We'll get the latest ZEW survey this week (Tue); recall how last month we saw a sharp fall in investor sentiment (led by Germany) – which was chalked down to heightened trade war fears. The question is whether this was a major overreaction to Trumpian hype or whether the added mix of geopolitical risks has now further weighed on Eurozone investor confidence. If we were to see a bounce-back, it would be telling of how economic agents are willing to look through the external trade war and geopolitical noise – and focus on the (fairly) unchanged fundamentals. Complete negligence to what's going on, however, is unlikely – the reality is that we'll find a middle ground between 'business as usual' and 'let's wait-and-see'. By extension, the same is true for the EUR bull trend; while the cyclical recovery is in pause mode, the medium-term dynamics of broad-based Eurozone economic strength combined with low domestic political risks and a large external surplus makes the EUR an attractive investment currency. Our year-end target is 1.30, but look for EUR/$ to trade within 1.22-1.24 for now.

JPY: Japanese politics may need to be added to the list of yen haven reasons

It's a brave move to bet against the Japanese yen in a world of Trumpian uncertainties. A breather in USD/JPY's year-to-date bearish trend isn't surprising given the sharp swing in JPY positioning that has occurred over this period (speculative markets moved from 54% net JPY short to 2% net JPY long). While FX markets seem to be shrugging off any global trade or geopolitical flare-ups for now, we remain wary that we're one move (or tweet) away from any escalation that could bring about a broader flight-to-safety. Japanese politics should also be added to the list of reasons for seeking haven in JPY – with Prime Minister Shinzo Abe's approval ratings at their lowest since December 2012, and ex-PM Junichiro Koizumi stirring up the resignation rumours, it's certainly a far from settled domestic political backdrop. USD/JPY could trade firm ahead of a crucial April BoJ meeting, but we remain sellers on any rallies.