

## US dollar strength returns

Right now, all roads lead to a stronger dollar



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### ⬆️ USD: Back to strength

With the positive effect from the G20 meeting fading very quickly, the near-term outlook favours the US dollar. If concerns about the US and global economic outlook continue, we'll see a further US Treasury curve flattening and, in turn, a stronger US dollar. If perceptions about the US economic outlook improve (a solid US labour market report this Friday could be one of the catalysts), markets could pencil in more Federal Reserve tightening (markets are currently pricing in two rate hikes by end-2019 vs our call for at least three) and, in turn, support the US dollar. The latter is the main reason why we think the USD bull cycle has yet to peak, as we look for the Fed to deliver more than two hikes by end 2019 (due in part to the likely rise in core US CPI to 2.5% year-on-year in the first half of next year). Given the cheap valuation of emerging market FX higher yielders and the high cost of selling this FX segment, we expect USD gains to be reflected on a more sustainable basis against low yielders such as the euro.

### ⬇️ EUR: Losing its fragile head of steam

With risk assets back under pressure, the recent fragile EUR/USD rise is reversing, with EUR/USD looking poised to break back below 1.1300. The growing political impasse in the UK (UK Parliament found the government in contempt of Parliament) should keep pressure on the pound intact. While

on the face of it, recent events reduce the probability of a hard Brexit, the material veil of uncertainty about the direction of UK politics suggests near-term downside to the pound. We look for EUR/GBP to break above 0.90 in coming weeks.

### 📌 CAD: On hold BoC secondary to OPEC meeting

As per our [BoC Preview](#), we expect Canada's central bank to take a pause in December, but decent growth, low unemployment and easing inflation should keep policymakers on track for two rate hikes next year. With an 'on hold' decision widely expected, the outcome of the upcoming OPEC meeting will be more important for the Canadian dollar. Following reports that Russia was only willing to cut output by a maximum of 150Mbbls/d, optimism has been waning that OPEC will be able to curb production sufficiently to induce higher oil prices.

### 📌 PLN: Dovish NBP rhetoric unlikely to affect zloty much

Today's National Bank of Poland meeting should bring no change and Governor Adam Glapinski is likely to maintain his dovish rhetoric, particularly after the recent lower than expected CPI (1.2% year-on-year). We continue to think that the NBP will not hike during this cycle. The impact on the zloty should be fairly limited as the bulk of the dovish re-pricing already occurred after the CPI reading last Friday. With the PLN rates market hardly pricing any ECB depo rate hike premium (only 25 basis points of hikes priced in over two years vs the likely 40 basis points of ECB hikes), the NBP-induced downside to the zloty should be fairly limited. PLN to trade in line with the general risk appetite, suggesting EUR/PLN moves above 4.2900.