

USD: A new protectionist dawn

US Fed minutes cite concern about a trade war, as new tariffs on China come into effect



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USD: Fed sticks to the script for now... onto US jobs report

The June FOMC meeting minutes provided little in the way of any fresh insight into the Federal Reserve's thinking - and little in the way of any fresh impetus for short-term US rates and the dollar. If anything, there were warning signs of a dovish U-turn in the minutes - with references to downside risks to the economy stemming from US trade policy and emerging market vulnerabilities. The focus now turns to the latest US jobs report; today's nonfarm payrolls should be healthy, with monthly wage growth also expected to come in at +0.3% month on month. It's difficult to see such a constructive report being negative for the USD, though any misses in today's data could spur a wave of profit-taking - given signs that the USD rally looks to be running out of steam.

EUR: US tariffs on China come into effect... will auto tariffs be next?

Aside from the Fed and US data, it's a pretty significant day for US trade policy - with Trump's proposed tariffs on China now actually in effect. There's an element of 'buy the rumour, sell the fact' here when it comes to risk markets - equities have had plenty of time to adjust to the

prospect of these tariffs. The unknown of US trade policy - and in particular possible auto sector tariffs - will keep markets on edge. Prospects for the eurozone economy and the euro are clouded by this uncertainty. But as we noted yesterday, it might not quite be over for euro bulls - with a lot of these uncertainties in the price. A weekly close above 1.17 today would be telling of our neutral (and limited downside) EUR/USD outlook for summer. It's also a big day for GBP with Prime Minister Theresa May set to unveil the UK government's Brexit plan.

JPY: Questioning its haven appeal when the source of risk is US auto tariffs

The yen is certainly not exuding its typical safe-haven characteristics when the backdrop for global equity markets is this soggy. We chalk this disconnect down to two factors: (1) when the source of market risk is the spectre of US auto tariffs, there is a negative fundamental impact on the Japanese growth outlook (note c.23% of total US car imports in 2017 were from Japan) and (2) JPY may be getting caught up in the Asian FX sell-off and we note that this is not that out-of-character - with USD/JPY having traded higher during the Asian crisis. Key USD/JPY level to watch is 111.

CAD: July BoC rate hike will go down to the wire but solid data today will help

Before next week's Bank of Canada meeting (11 July), today sees a selection of key domestic data releases - the June jobs report, trade balance and Ivey PMI readings. While the jobs figures have been fairly inconsistent of late, Canadian wage growth has been on a tear (the current reading at 3.9% year on year outstrips the US average hourly earnings equivalent). Should this remain elevated, we think a July rate hike is a pretty solid bet (markets agree here and are pricing in an 85% probability). However, as is the case with most central banks, such calls on policy tightening will likely go down to the wire given the volatile nature of US trade policy - and by extension global markets. Therefore the odds of a BoC rate hike disappointment next week are non-negligible (softer data today might partly dent expectations); however, we do think that we would have seen some verbal interjections from BoC officials by now should they have deemed current market expectations to be too optimistic. Solid domestic data and no additional news on US tariffs may see USD/CAD's corrective move lower continue to 1.30.

Author

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com