

USD: Bull in a China shop

This trade war certainly hasn't hurt the dollar so far and last night's release of the FOMC minutes actually saw the Fed upgrading their US growth forecasts. Certainly, there was very little that was dovish in the minutes. But will Chinese retaliation hit US equities at some point?



Source: Shutterstock

USD: War of words continues, Fed minutes upbeat

The Chinese flagship publication, the People's Daily, today describes the US as behaving like a 'bull in a china shop' for effectively by-passing the World Trade Organisation with its large, unilateral tariffs. We can't know for sure, but it doesn't seem like there's going to be any immediate rapprochement between the US and China. Indeed the next move maybe further Chinese retaliation against US producers. This trade war certainly hasn't hurt the dollar so far and last night's release of the FOMC minutes actually saw FOMC upgrading their US growth forecasts. Certainly, there was very little that was dovish in the minutes and the preferred position of data-dependent patience was expected to be with us for some time.

Given the unresolved trade war and challenges still faced in Europe, it's hard to argue with the dollar holding onto gains – though we do still worry that Chinese retaliation could hit US equities at some point. There's little US data today and instead the focus today will be on European politics and the May PMIs. The US dollar index looks set to nudge to the highest levels of the year near

term above 98.33.

EUR: May PMIs in focus

Today, we'll see the start of the European elections and May PMIs for Europe. We published a piece yesterday looking at the [four key battlegrounds](#) within these European elections. Certainly, there are risks to the euro if the populists do exceptionally well – but by no means is this outcome a given. Keep an eye out for the results on Sunday evening. We saw a slight improvement in May PMIs, perhaps buffeted by the news that President Trump is delaying auto tariffs and the slightly better 1Q19 GDP figures. Expect EUR/USD to stay offered in a 1.1110/30 to 1.1180 range.

[European elections: Four key battlegrounds for markets](#)

GBP: May's days are numbered

It looks like prime minister Theresa May will be resigning sometime over the next week now that she has lost the support of some of her key cabinet members. What comes next is wholly uncertain, but most likely market pricing of a 'no-deal' Brexit will increase this summer. Despite thirteen consecutive days of decline against the EUR, GBP still remains fragile. Cable remains on course for 1.25.

ZAR: South Africa's central bank to leave rates unchanged

South Africa' Reserve Bank meets to set interest rates today and is unanimously expected to leave rates unchanged at 6.75%. The market prices in a 25bp rate cut over the next six months – presumably on the assumption of a de-escalation in the trade war and a stable Rand. At this stage we'd be more cautious about the currency.

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