

US dollar unlikely to fall much more against G10 low yielders

Low yielding currencies such as the euro, Japanese and Swiss franc are likely to underperform high yielders and commodity currencies



➔ USD: Dollar downside vs G10 low yielders exhausted

After two straight days of material losses, the dollar has taken a breather. We see the upside of G10 low yielders (euro, Japanese and Swiss franc) against the US dollar as exhausted and look for commodity currencies (oil prices have likely troughed partly due to coming supply cuts) and higher yielding FX (benefiting from stabilising risk appetite) to outperform. The next key catalyst for further stock market gains is the evolution of US-China trade talks, with any positive headline news likely providing further support to battered risk assets. Today, President Trump delivers a televised address to the nation but any imminent resolution of the partial government shutdown seems unlikely. While not supportive for risk, what matters more at this point is the Fed's stance. Following Chair Jay Powell's speech on Friday, we don't expect the stream of Fed speakers to materially deviate from the cautious message on rates but relative optimism on growth will be non-negative for risk assets.

⬇ EUR: Topping out

We see the EUR/USD topping out against USD in terms of the near-term outlook. Today's dismal

German November industrial production suggests that [the risk of technical recession in Germany has increased](#), while the eventual restart of Fed tightening should also weigh on EUR/USD. Moreover, the upcoming EU Parliamentary elections in May and the Brexit woes are other non-positives for EUR vs USD. We project EUR/USD at 1.10 in coming months (before recovering in 2H19).

➔ EMEA FX: Higher oil prices benefiting RUB, ILS and ZAR

While the central and eastern European FX remains fairly agnostic to the moves in oil prices, oil matters dearly for EMEA dollar-block currencies. As per our 2019 [FX Outlook](#), our PCA analysis shows that within the EMEA space, the rouble, Israeli new shekel and South African rand are the key beneficiaries of rising oil prices (the first two via the direct oil channel, the rand via general moves in commodity prices) while the oil importing Turkish lira suffers the most. The rising oil price coupled with the risk of political noise ahead of the upcoming local elections in March should, in our view, tame the lira's upside and translate into underperformance vs the rouble.

➔ RON: NBR staying on hold

Our economists expect the National Bank of Romania to stay on hold today, particularly in the context of the recent moves by the ruling Social Democrats, which have complicated efforts to manage monetary policy. The ROBOR-linked bank tax, announced last month, will tighten credit conditions, which means further NBR hikes could have an amplified impact. This suggests a large constraint for the NBR to hike and, in fact, opens the way for the NBR to cut the reserve requirement ratio to ease its stance. While this keeps the Romanian leu vulnerable, long EUR/RON positions remain unattractive as the spot is unlikely to outperform the very elevated forwards.