USD: G10's highest yielder

May Day holidays around the world will create thinner trading conditions today. That bodes well for the US dollar, which is now the highest yielding currency in the G10

USD: Dollar becomes G10's highest yielder

May Day holidays around the world will create thinner trading conditions today. Typically high yielding currencies perform a little better in environments like these and looking across the G10 FX space, all roads seem to point to the dollar. USD three-month Libor rates near 2.35% pay comfortably more than the typical high yielders of the New Zealand and Australian dollars, arguing that investors need a good reason to run short USD positions in the face of yields as high as these. Those reasons seem not to exist this week, with President Trump seemingly avoiding a trade war with the EU (EU relief on steel tariffs apparently extended until 1 June) and what should be some more positive US data later today. Here, the April ISM should come in near cycle highs and the market will be focusing on prices paid, which have recently pushed up to the highest levels since early 2011. We don't want to stand in the way of dollar strength in the short term and the US dollar index looks biased to 92.50.

EUR: 200-day moving average at 1.2015

May Day holidays across Europe keep the data calendar largely empty today, with the market awaiting what should be a softer 1Q Eurozone GDP figure tomorrow. Assuming the ISM data delivers today – and a market still long EUR – there's a risk that EUR/USD tests the 200-day moving average today down at 1.2015. With stronger US data expected later in the week (including nonfarm payrolls/wages on Friday) EUR/USD downside remains vulnerable. We also note that the correction in EUR/USD is exposing some USD short positions against Central and Eastern Europe – especially the Czech koruna. That means the EUR/CZK correction could extend a little higher into what should be a dovish Czech National Bank rate meeting on Thursday. Please see our CNB preview.

JPY: USD/JPY correction has further to run

It's hard to argue with the current run-up with USD/JPY, with lots of focus on potential unhedged purchases of US bonds by Japanese Lifers. $/JPY to 109.80.

AUD: RBA sounding cautiously positive

The Reserve Bank of Australia held rates unchanged today at 1.5% but delivered a reasonably positive message of growth near 3% in 2018 and 2019 and inflation not far from target. It doesn't seem unduly concerned over developments in China or commodities markets at this stage, while seemingly welcoming the slowdown in house prices. Markets are happy to price flat RBA rates well into 2019, meaning that the AUD has proved vulnerable to the rise in short-term US rates – which the RBA acknowledges have risen for reasons other than a rise in Fed funds (i.e. a reference to the Libor-OIS story). In our G10 FX Week Ahead we acknowledge that AUD will face a tough week from upside risks to US rates, but the local AUD story doesn't look that bleak. 0.7500 remains key AUD/$ support.

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