USD: King of the castle

Firm US rates and some signals that OPEC+ might actually cut supply in December have heaped more pain on emerging market oil importers and sent the dollar to new highs for the year

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USD: Making a strong comeback

The dollar is pushing to new highs for the year, helped by the recovery in crude oil prices and the political challenges faced by Europe. We had thought that emerging markets FX could receive a brief reprieve through November on faint hopes of a US-China trade deal at the end of the month, but firm US rates and now some signals that OPEC+ might actually cut supply again in December have heaped more pain on the emerging market oil importers. At the weekend meeting in Abu Dhabi, the Saudis suggested they might be cutting production 500,000 barrels per day in December, leading to expectations of an OPEC+ 1 million bpd cut.

As outlined in our G10 FX Week Ahead, we think US data will be dollar positive this week and we are looking for marginal new highs in the dollar. Expect investors to remain nervous about how USD/CNY trades near 7.00, a break of which could also see USD/EM have another leg higher. The wild card here is what the White House thinks about this dollar strength. While President Trump will appreciate the dollar representing the strongest economy in the world, narrower options for stimulus next year could see greater incentives for the White House to talk the currency lower. For the time being, however, incredibly high dollar hedging costs and macro-political uncertainty in major trading partners keep the dollar as the only game in town. DXY can push onto the next target at 97.85.

EUR: Cheapening up

Since early September, the EUR trade-weighted index has fallen around 2% - thus this EUR/USD break lower is not merely a strong dollar story. We had felt in late October that the EUR could cheapen up some more, and certainly the combination of politics (both in the eurozone and the UK) and weaker eurozone activity warn that this trend can continue. Eurozone data this week should support this theme, where the release of 3Q18 GDP data from Germany on Wednesday could actually show a contraction. We are calling for a EUR/USD low this week of 1.1190 in our G10 FX week ahead and today's early break of 1.1300 and thin markets on the back of a US public holiday suggest that this trend will continue.

GBP: The hard yards

Resignations amongst the UK Cabinet and no hint of any support beyond the Conservative party have the market once again considering the chances of a 'no-deal' Brexit. We prefer to see 1.26/27 in Cable as the lower end of a trading range and stronger UK jobs/wages data might provide some comfort to GBP.

CNY: Let's keep watch on 7.00

USD/CNY is close to the highs of the year again and we'd keep a close watch of USD/CNH in thin markets. A trade above 7.00 could trigger broad-based USD gains.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com