

## USD: Mindset shifting to 'sell the rally'

The market is slowly but surely gaining confidence that the US dollar is coming to the end of its eight-year bull run



Source: Shutterstock

### 📌 USD: Dollar seen as less of a safe haven now

It seems the narrative on the dollar is slowly moving onto its next chapter. Now that the Fed has connected the dots between Trump's trade war and US business confidence, it seems that any news on increased trade tension is having a diminishing marginal positive impact on the dollar. Instead it seems the market is slowly but surely gaining confidence that the dollar is coming to the end of its eight-year bull run. Here, [other banks](#) have joined [our view](#) that President Trump might consider direct intervention to weaken the dollar later this year. The dollar also failed to gain any real benefit after a very rare 0.3% month-on-month rise in US core CPI yesterday. Instead, focus on the US fiscal position may be growing. The FT's Martin Wolf [wrote a critical piece this week](#) on the subject and coincidentally yesterday's auction of 30-year US Treasuries drew the lowest indirect bid (typically seen as foreign central bank demand) since early 2015. There's only US PPI today and a Fed speaker (Charles Evans 16CET), but it looks as though the market is confident of a 25 basis point Fed cut on 31 July – especially with what we read as a pretty dovish set of June FOMC minutes. We think the investor dollar mindset has now shifted to 'sell the rally'. DXY to drift to 96.35/50.

## ➔ EUR: Should be doing a little better

Another story this summer will be the euro's failure to take advantage of a weak dollar environment. Here the dramatic narrowing in the BTP:Bund spread should be seen as a EUR positive – yet one of the reasons for the narrowing (QE2 from the ECB) is holding the EUR back. Nonetheless, if investors slowly turn against the dollar there aren't that many liquid alternatives and the EUR should find some support. For today, the focus is on eurozone industrial production, which may have increased in May [though we expect manufacturing to be weak in the second half of the year](#). Let's see if EUR/USD can edge up to 1.1330 in thin summer markets. EUR-funded activity trades will also become popular if the Fed can successfully steepen the yield curve and pairs like EUR/CAD may be set for some sizable declines.

## ➔ GBP: Branson thinks No-Deal is a parity story

Not that Richard Branson is famous for his currency forecasts, but he thinks a No Deal Brexit is worth parity for cable. We have cable at 1.10 on a No Deal – please see our Scenario analysis [here](#).

## ➔ ZAR: Rand enjoys weaker dollar and Eskom support

The South African rand has been the best emerging market performer of the week, buoyed by: i) dovish Fed and soft dollar, ii) CNH stability and iii) news yesterday that Eskom's biggest bondholder plans a debt-equity swap. Under 13.85, USD/ZAR could briefly trade to 13.50 (a SARB rate cut next week might help the ZAR via bond inflows), but ZAR gains could quickly evaporate if trade tensions re-escalate later this summer.

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