

USD: Resistance is futile

The US dollar index is at its highest level this year, and the rally could have further room to run



Source: Shutterstock

📈 USD: DXY pushes to new highs for the year

FX traders are always wary that range breakouts in a low volatility environment could see some follow through. It is through this lens they'll be monitoring the current breakout in the dollar and will be wary that it has further to run. From a macro perspective, the dollar is deriving support as the central banks of trading partners abandon tightening plans. Canada was the latest to do so yesterday and within the G10 space, the market only now prices some modest tightening for Norway, Sweden and the UK (in that order) over the next year. That tightening could easily be priced out (Riksbank meets today) and will leave those currencies exposed. And if bond markets are to be favoured, as investors sink their teeth into secular stagnation stories, the flat/inverted US yield curve will help the dollar outperform. Yesterday saw the highest indirect bid at a US five-year auction since last August (indirect bids are typically a gauge on foreign demand) and with USD hedging costs for JPY and EUR based investors at a huge 3% on a three-month annualised basis, some of the unhedged buying must be helping the dollar. After the US\$41 billion five-year sale yesterday, the US Treasury today auctions the regular \$32 billion of seven years – this should also help the dollar. Combined [with the prospect of a decent 2.5% 1Q19 GDP print tomorrow](#), this suggests DXY can push onto the 98.50 area.

⬇ EUR: Beware the breakout

We think EUR/USD is cheap at current levels, but until there is a compelling evidence that the downturn is temporary (prompting investors to rotate into European assets), it will remain under pressure. Below 1.1110/30 risks 1.10.

⬇ JPY: BoJ clarifies forward guidance

At today's meeting, the Bank of Japan clarified that the extremely low level of rates would be maintained until Spring 2020. That had little impact on the rate curve, but sees the BoJ emulate the European Central Bank in opting for a calendar-dependent approach to policy. Japanese authorities will also be wary of events in Korea, where a 0.3% quarter-on-quarter decline in 1Q19 GDP (led by exports, investment) sees JPY/KRW head back towards 10.50. Tokyo will be sensitive to loss of regional competitiveness.

⬇ SEK: Riksbank to retain a dovish bias

We expect the Riksbank to retain its dovish policy stance today. Following a string of weak inflation figures and a generally downbeat outlook for both the domestic Swedish economy, the Riksbank will most likely revise its forecast for interest rates down slightly, to indicate the next hike will most likely come in 4Q19. We also believe the Riksbank will announce a continued re-investment of its QE portfolio. We see downside risks to SEK. EUR/SEK to move towards 10.60.

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