

## USD: Short termism

Comparisons between Trump and Reagan are looking more valid by the day. The US policy mix of looser fiscal and tighter monetary policy is driving the dollar higher. But for how long?



### USD: Trump's policy mix is delivering a stronger dollar & wider trade deficit

The US policy mix of looser fiscal and tighter monetary policy is driving the dollar higher, sucking in cheaper imports (those without tariffs anyway!) and widening the trade deficit.

Comparisons between Trump and Reagan are looking more valid by the day. In FX, we're now starting to see USD/Asia playing catch-up with the broad dollar rally (USD/CNH trading well above 6.50 now) questioning whether this is really what Washington wants to see. The strong dollar is also exporting tighter monetary policy to many emerging market nations ([Mexico to hike today](#))

meaning EM growth will be slower than it could have been. For the time being, the market will continue to back the dollar, but if trade wars merely represent noisy deal-making from Trump and any signs of concessions can be seen, the risk environment could turn more benign later this summer. A Federal Reserve that better acknowledges the threat of protectionism would help, too. DXY to 96.

## EUR: More horse-trading on tariffs?

EUR/USD remains fragile after a sea-change in medium-term expectations over the last six to eight weeks. Beyond domestically driven USD strength and a dovish ECB, the threat of the trade war spilling over into the auto sector has not helped the euro. Things could get worse before they get better, with the EU formally placing tariffs on €2.8 billion worth of US imports tomorrow – potentially eliciting another response from Washington. However, there also seems to be an offer brewing from Europe to scrap all duties on auto exports (the EU now charges the US 10%, US charges EU 2.5%), which could allow Trump to claim victory and de-escalate the trade war. Watch this space. EUR/USD stays fragile to 1.1500 today, although look out for a speech from ECB hawk Jens Weidmann. In Switzerland, no one is looking for any change in policy from the central bank today. With EUR/CHF recently having traded below 1.14 on Italian political fears, the SNB will probably emphasize international uncertainty and a 'highly valued' Swiss franc as reasons to stay very dovish. EUR/CHF should remain supported under 1.15.

## GBP: Sterling unaffected by the BoE meeting

The likelihood of a fairly vague policy signal in the post-meeting statement (see [The Bank of England's June dashboard](#)) means that the pound should be fairly unaffected today. Indeed, the mixed batch of UK data releases over the past week has generally had a neutral impact on the policy outlook. With Brexit politics and the short-term economic backdrop both highly fragile, we think the MPC will feel little need to send any pre-committing rate hike signal this month. EUR/GBP to continue to trade in the well-worn 0.8700-0.8830 range.

## NOK: NB confirming its policy divergence away from the ECB

While the Norges Bank is unlikely to increase interest rates today, we expect the central bank to stick to projecting a first rate hike in September. As per the [NB preview](#), a solid domestic economy and higher oil prices point to tightening. This makes the NB a relatively hawkish outlier in the European central banking space. Indeed, with the ECB providing more dovish interest rate guidance, the NB confirming its path of interest rates increases should be supportive for the Norwegian krone and cement the policy divergence. EUR/NOK is likely to test the 9.4000 support level.

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