

## USD: Still the best currency in town

Despite a dismal US ISM report yesterday, we still think the dollar is the best currency out there



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A slowing US economy (as is evident from the [dismal ISM Manufacturing report yesterday](#)) but cautious Federal Reserve, which is currently unwilling to pre-commit to a meaningful easing cycle (Fed member Charles Evans said the current interest rate level is “appropriate”) suggest (a) ongoing support for the dollar- a high yielding currency of a relatively closed economy and (b) pressure on emerging market FX and cyclical G10 currencies. Given the global slowdown and uncertainty about the US-China trade negotiations, the current trend in the dollar and EM FX will only change if we see a more meaningful easing cycle from the Fed above and beyond what is priced in. As this looks unlikely at this point (markets pricing two 25 basis point cuts by 1Q20 – in line with our forecast), the US dollar is set to continue doing well, while EM FX will struggle.



## EUR: Upside remains fairly limited

EUR/USD moved back above the 1.0900 level in response to the weak US survey data and the fall in US Treasury yields yesterday, yet room for EUR/USD upside is limited given the cautious and not overly dovish Fed as well as a slowing eurozone economy and [declining CPI prices](#). As for the Swedish krona, a disappointing manufacturing PMI report yesterday underlines our negative view of the currency. The domestic economy is weak, interest rate hikes signalled by the Riksbank are out of the question and with trade war uncertainty in place, SEK is a highly unattractive currency. We target EURE/SEK 11.00 by year end.

## ↓ GBP: No light at the end of the tunnel

Price action in sterling remains highly sensitive to Brexit talks / headline news. The “four year / two border” proposal (whereby Northern Ireland would stay in the single market for goods to the end of 2024 but would leave the customs union with the rest of the UK by the end of 2020) is unlikely to be acceptable to Ireland, and therefore for the EU. Our base case remains an extension of Article 50 beyond 31 October and early elections this quarter. As per our [Sterling risk premium tracker](#), a limited risk premium is currently priced into GBP and we look for more GBP weakness to come in the run up to early elections.

## → PLN: NBP firmly on hold, the focus is on ECJ ruling

The National Bank of Poland meeting should be a non-event today with the central bank remaining firmly on hold (the latest modest downside surprise to inflation supports the on-hold decision). Rather, the focus remains on the [ECJ ruling on Swiss franc mortgages tomorrow](#). The European Court of Justice will likely side with debtors, suggesting downside risk to the Polish zloty, with EUR/PLN set to retest the 4.40 level this week.