USD: Taking stock

The sell-off in risk assets has taken a pause but until a trade deal is done, investors will be reluctant to buy the dip

USD: Are stock markets telling Trump he pushed too hard?

The sell-off in risk assets has taken a pause after slightly more optimistic remarks from President Trump on the prospects of a US-China trade deal over the next three to four weeks. The reality is, however, that both sides have announced another round of tariffs and until a deal is done, investors will be reluctant to buy the dip. We should also be hearing by the end of this week whether Washington wants to push ahead with tariffs on auto imports. There is far less cross party support in Congress for these, but Trump could be tempted to take action to satisfy his base. In addition, the Chinese yuan remains vulnerable. Overnight the People's Bank of China fixed USD/CNY at 6.8365, not far away from model-based estimates. But the market-based levels of the fixing hint that the PBOC may not throw the kitchen sink at USD/CNY to keep it below 7.00. Let's see. For today, we should expect a modest bounce in US equities after yesterday's 2.4% sell-off and focus on data (NFIB small business optimism) and Federal Reserve speakers (John Williams 0915CET, Esther George 1845). Expect DXY to consolidate in the 97.00/97.50 range, but a new low for the year in two-year USD swap rates and the speculation – as we saw yesterday – of China mulling the sale of US assets should favour defensive positions in the Japanese yen over coming weeks. USD/JPY may well top out at 109.80/110.00.

EUR: German ZEW in focus

Were it not for the trade tension, this week could have been a good one for the European re-rating story. The German ZEW investor sentiment index is expected to stabilise for the first time since its collapse from last Autumn and tomorrow's 1Q19 German GDP should be encouraging. Given trade headwinds and no support from European Central Bank policy (inflation expectations are on their lows) it's hard to see anything other than a short squeeze supporting the euro. Thus the 1.1260/1300 area will prove sticky resistance for EUR/USD.

GBP: Could wage data re-kindle the prospect of a November hike?

There have been quite a few articles written on how the market is happy to ignore Governor Mark Carney's warning of earlier rate hikes. Another strong UK wage figure today could question the 7 basis points of Bank of England hikes priced in over the next year. That may be enough to swing cable back to top of the near term range at 1.3050/3100.

CZK: Inflation has peaked and so has the CZK

As Jakub Seidler repeated yesterday, we think Czech inflation peaked in March. We also think the rate cycle is over and following a recent investor trip to the US, our team believes US real-money fails to appreciate the downside risks to the Czech koruna over coming quarters. We target EUR/CZK at 26.30 on a 12-month view.

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