USD: Trump's pedal to the metal

President Trump says he is "not thrilled" with Fed rate hikes. Are his comments enough to turn the bull trend in the dollar?

USD: Trump wants it all: US economic dominance and a weaker dollar!

At least he's consistent. President Trump wants maximum stimulus for the US economy from all quarters – trade, fiscal, monetary and the dollar. So while he does revel in the economic pain caused to others by US trade policy (e.g. asset market weakness in the likes of China and Turkey) he still wants US stimulus dialled up to the max, including a weaker dollar. That's the context of Trump's interview with Reuters, where he outlines that he's 'not thrilled' with Fed Chair Jay Powell's raising of rates and also lobs in criticism that both the renminbi and the euro are being manipulated weaker. Are the Chinese worried? What if the US Treasury declares China a currency manipulator in its October report and threatens sanctions? Well, Trump looks to be already well on the way to dialling sanctions up to the max, too.

It looks as though Trump's comments have had an impact on the market, which is very long dollar after last week's emerging market rout. But are they enough to turn the bull trend? Probably not – unless it looks like the Fed has independently assessed that there has been an unwarranted tightening of financial conditions and wants to slow the pace of rate hikes. We'll hear more from the Fed later this week in the form of 1 August FOMC minutes (released tomorrow) and Powell speaking at Jackson Hole on Friday. A quiet week for emerging markets (Turkey is now on holiday for the rest of the week) suggests a lid on the dollar until Friday. The dollar index could edge a little lower to 95.00 in thin markets.

EUR: Reprieve from Trump

It's not clear why Trump feels the euro is being manipulated lower. Has the European Central Bank set its inflation target too high and that's why policy is too loose? As Viraj Patel noted yesterday there has been some convergence in the economic surprise indicators of the US and the eurozone which could be EUR/USD supportive. And a break of 1.1530 could carry EUR/USD to 1.1600 in thin markets – but as noted above, a sustained turnaround in the bear trend probably requires a less hawkish Fed or a surprisingly upbeat ECB - neither of which seems imminent. At the same time, the emerging market environment looks challenging into November mid-term elections, with the big beasts of China, Russia and Turkey all under sanctions pressure. So we'll watch this EUR/USD carefully, but probably need several more factors to fall into place before calling 1.13 a major low.

JPY: Is the JPY now the preferred safe haven?

Trump's remarks may also see investors have greater appetite for the Japanese yen as their safe haven of choice. Both USD and JPY had performed well during the recent emerging market sell-off, but investors may not like the fact that Trump is leaning on the Fed.

HUF: NBH sticking to what it knows

The National Bank of Hungary is widely expected to keep interest rates and its dovish bias unchanged at today's meeting. Such a stance is supported by the relatively well-behaved exchange rate of late, with the EUR/HUF still fluctuating below the central bank's pain threshold (which we estimate to be above the EUR/HUF level 330 in terms of raising concern about the inflation outlook) despite the recent turmoil in Turkey. Look for a fairly limited impact on the forint, with EUR/HUF primarily being driven by the risk environment today.

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