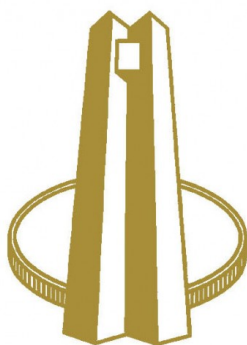


ZAR: South Africa's central bank's easing cycle resumes

The SARB is widely expected to cut rates this Wednesday. Here's how we think major currency pairs will perform today



South African Reserve Bank

USD: Trump's trade tactics pay-off

US tech stocks remain fragile and a weak close for key US equity indices has led to a sea of red in Asia overnight. The tech story masks some better news in that North Korea still seems willing to de-nuclearise and a summit of key players should be happening later this year. And reports suggest that the US has secured an amended trade deal with South Korea, where US auto export quotas into the country will be raised, while S. Korea will avoid the 25% tariffs on steel and aluminium.

This will embolden Trump's aggressive trade policy strategy – although we would say South Korea is a very close US ally and it's unclear how Trump's tactics will play out in China. US data today is relatively light – just the 3rd revision to US 4Q17 GDP and the goods trade deficit for February. This goods deficit has deteriorated since last September. Any further widening should be USD negative – supporting Trump's view that the rest of the world is 'cheating'.

ZAR: SARB widely expect to cut 25bp

The SARB announces its interest rate decision today and is widely expected to cut the repo rate 25bp to 6.50%. This would mark the first cut since July 2017. The move comes after Moody's on Friday removed the threat of cutting South Africa to a junk credit rating by shifting the outlook to stable. Following the arrival of Cyril Ramaphosa in December, investors have bought roughly US\$2bn of both South African equities and bonds and are pricing the virtuous cycle of ZAR stability/strength, rate cuts and returns in local asset market. We estimate that the ZAR is already 11% over-valued on our medium-term models. While we see the merits in holding ZAR on the back of a bond play on the new SARB easing cycle (only 60bp of easing looks priced over the next year), a largish current deficit (3% of GDP) and an uncertain external environment advises caution. \$/ZAR support 11.50

EUR: Becalmed

EUR/USD is becalmed mid-range and the next EUR drivers may be tomorrow's German CPI data. As above, we expect Trump to push on trade, although the EU will not be as accommodating as the South Koreans. The Eurozone's huge current account surplus (3.5% of GDP) keeps the EU firmly in Washington's sights on trade policy – with an implicit view that the EUR is too cheap. In the short term, EUR/USD could slip back to 1.2350 as firm USD funding costs bite, but a near-term catalyst for a break-out is hard to see.

GBP: EUR/GBP drifts

EUR/GBP found support under 0.8700 last week and favour further consolidation in narrow ranges. UK consumer confidence edges lower. No surprise there.

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