Equities rise, dollar gains, equities fall, dollar gains...

The USD keeps chipping away against most of the majors, despite stocks, despite Draghi and the ECB, and despite a historically large goods trade deficit. Today's GDP could give us another boost. Asian FX, in contrast, is relatively stable, save for the CNY, which continues a slow path towards 7.0 dragging currency basket currencies like SGD with it.

Source: iStock

It's Friday, stocks rose last time...

The phone calls I least like to receive from journalists are those asking me to comment on the price action of a market on a particular day. The temptation to answer something like "more buyers than sellers" is sometimes almost too much to bear. Of course, in reality, there will always be as many buyers as sellers, so even that sort of glib answer makes no sense.

And that is how we should probably view yesterday's big bounce in US, European and some Asian bourses, with futures markets pointing to mainly "green" outcomes as Asia opens today.

That said, little of this equity volatility is currently playing much of a role in the currencies of the region. The high yielders are mainly relatively stable. The KRW took a knock yesterday for idiosyncratic reasons - weak growth and a re-think on the BoK's November meeting. The CNY keeps beating a slow and steady path towards 7.0. We think it gets there by the end of the year, and after some huffing and puffing, will blow through that late 2018 / early 2019 with an eventual peak of 7.30 mid-year (let's not pretend we can pinpoint it any more than that).

Going along for the ride, at least for now, is the SGD. With its currency policy determined by effective exchange rates, depreciation by big partners like the CNY are having outsize impacts on the smaller currency unit. We will have to take a re-look at our SGD forecasts in the light of our new CNY figures, but we are probably now going to be looking at something in the 1.40 area, despite the recent additional tightening performed by the MAS.

US 3Q18 GDP - trade to drag?

Looking for events that might provide some further volatility to the markets, today we have US 3Q18 GDP. Our US economists look for a 3.6% print, down from 4.2% in 2Q18, but a little higher than the 3.3% consensus. That view and the consensus may be facing a little downside risk after overnight figures showed the Advance US Trade in goods deficit at its worst since at least 1989, possibly the worst ever (though that isn't a terribly meaningful statistic, exciting as it sounds). In the good old days, this would have been a reason to sell the dollar. Not now, it seems.

AUD, plumbing the depths - more to come.

Get ready for an AUD/USD figure of 0.6-something. The little AUD battler has been fighting a rear-guard retreat all year, and it doesn't look like coming to an end any time soon. This isn't just a CNY story, though that no-doubt doesn't help. You can almost draw a straight line through the decline since January / February 2018, coinciding with the death of the global synchronous recovery thesis.

The RBA seems quite happy with the result. We don't think they will see any need to resist this. For the moment, AUD/USD 0.68 seems a sensible place to draw the forecasting line early 2019, roughly at the 2016 low.

But next week's inflation data could cause an upward blip, if only a temporary one, providing some short-term AUD strength. Any such increase will mostly be due to higher oil prices in 3Q18. Though looking at what crude prices are doing currently, this should be a flash in the pan, unless wages growth begins to pick up. We don't think it will.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com