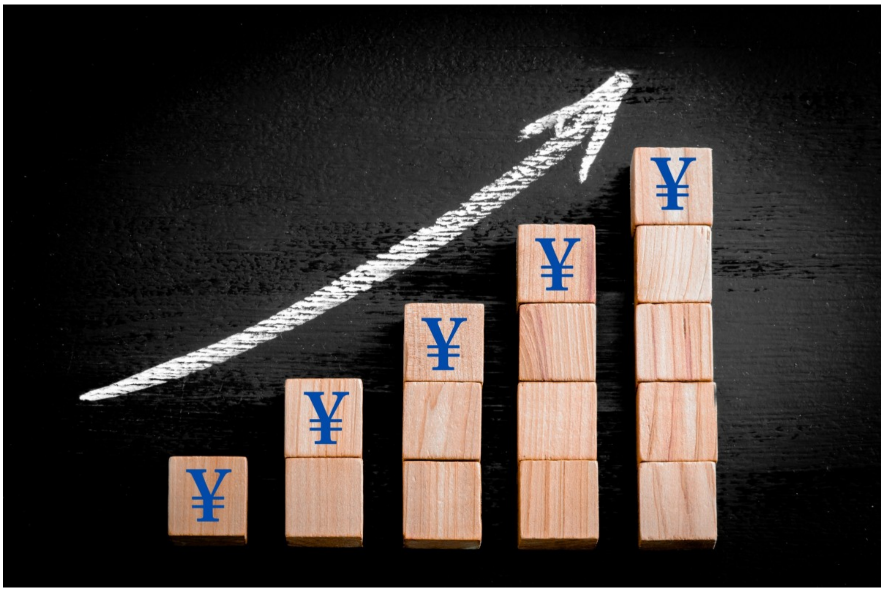
JPY - stronger by default

By default, the JPY is outperforming other majors. With the S&P 500 back below the 200-day moving average, the mood of investors looks solemn. The USD looks troubled as a result, but the EUR seems unable to break higher, due to its own local problems. Even the GBP seems able to hold its ground against the USD despite Brexit issues (though not against the EUR).



Rising yen ascending on blocks

Source: Shutterstock

Majors - what to hate least

Investors seem for once to be looking forward, as well as backward in their deliberations on the US and the USD. And they fear two things:

1. A slowdown in activity - not remotely on the cards yet as fiscal stimulus continues to fuel a booming economy - notwithstanding poor retail sales data last night, the Atlanta Fed GDPNow forecast for 3Q18 is still 4.0%, only down a little from 4.2% yesterday. But sometime in 2019...nerves are beginning to fray...
2. A sharper pick up in inflation / wages, and with it, a pick up in the Fed's tightening.
3. Both of the above - 1) and 2) are not mutually exclusive thanks to the lags in transmission form activity to inflation. Sure, the indicators of labour market stress are alarming - James

> Knightley, our Chief International Economist recently referred to the NFIB survey in a note, and it does look red-hot, white-hot even. I personally don't think the labour market and wages have anything but a very shallow relationship these days. but it is one thing to doubt the strength of the transmission mechanism, it is quite another to ignore it altogether, and some further modest wages growth could be all it takes to get the Fed to change their tune and cause panic among risk asset investors. It looks as if some are already battening down the hatches.

All of which is not helping the world's primary currency unit, the USD. Though that's providing a sliver of support for Asian FX markets, much appreciated after recent turmoil. Not so much their equity markets, which are looking quite sad.

A cup of cold poison with your meal Madam?

However, choosing amongst the other major currencies these days is a bit like choosing which roadkill to consume for dinner. Sterling? Well, to many, that will obviously be off the menu. Forget the comforting words from PM May and President Macron overnight, this looks toxic unless a miraculous deal is produced, and even then, the UK Parliament may vote it down. The only thing that maybe makes this look worth a bite, is the grassy-knoll theory that this negotiation is being taken right to the line, to make an unpalatable meal seem less hideous. That's not something I want on my plate.

The EUR, by association, is also looking rather gnarly. Don't forget, what's bad for the UK is bad for Europe, just less so. It is notable that during all the recent market unease in the US, the EUR has failed to do much more than make it back into the range it had inhabited for much of the year, reversing the more recent USD rally. The Italian deficit saga can't be helping. And perhaps this is why EURGBP doesn't look better than it does. If you want to give yourself a headache, here is the EU Parliament's overview of the Stability and Growth Pact rules. No, I barely understand it either.

In the end, that only leaves the JPY. Recent growth figures have been impressive, even the inflation figures, ignoring what is driving them, seem closer to their target than in a very long time. There is renewed chatter about BoJ normalization, and this is not being discouraged by BoJ Governor Kuroda. While this lasts, the JPY should do well.

Author

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