

USD fails to rally on end of Government shutdown

Asian currencies still firm after US Government shutdown ends



If this doesn't cause the USD to rally, does that mean further USD weakness ahead?

We began the week thinking that

1. the USD might manage to claw back some ground in the event that the government shutdown ended and;
2. the ECB attempted to push back against EUR strength at its meeting, and downplay taper expectations.

The first of these events has happened and the USD has not rallied meaningfully. This suggests that it is on a fundamentally weak footing. Admittedly, there is still much to play for in this government showdown, and the window for progress on DACA or spending is narrow (next line in the sand is February 8). But even so, a minor relief rally would not have looked out of place.

Can Draghi reverse the EUR's fortunes?

This raises the question whether Mario Draghi can reverse the EUR's ascendancy at the ECB's

meeting this week. Our FX strategists see some good reasons why not.

These reasons include:

1. The EUR is not overvalued on a short term basis at current levels
2. The EUR has not yet breached the ECB's 1.25 pain threshold and;
3. Markets are not expecting any announcement of QE end, so nothing to respond to in the event that Draghi pushes back

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Follow link to see our latest thinking on the ECB meeting, and also visit Think.ing.com for other related articles, including Petr Krpata's video on the ERU outlook

Mixed signals on oil

Is it just me, or when you hear Russia and Saudi Arabia planning to prolong the crude oil supply constraint agreement, does it make you think they are worried about the outlook for oil? The last few days has seen Brent crude front month contracts take a pause for breath. Helping underpin prices, inventory data remains supportive. And it is strange that at these prices, we have seen rig counts in the US drop a little. Weren't US frackers supposed to be able to clean-up at these prices? Evidence to the contrary comes from the results of some of the rig support-service companies reported in newswires today as having widened their margins. These firms were heavily squeezed when oil prices slumped. It seems that this may be where much of the price of a barrel of fracked crude is going these days, not into the pockets of the frackers.

Nevertheless, we can't help feeling that oil prices seem stretched up here. At these prices, sooner or later, supply will respond.

Asia - Day ahead: PH GDP, SING CPI and BoJ

It is quite a busy day ahead in Asia, in contrast to the G-10. The BoJ meeting will be worth a watch, but we suspect speculation that Governor Kuroda will provide any taper hints will prove unfounded. Were he to do so, then our best guess is that the actual QQE purchase rate would be formalised in any new BoJ target - in other words, what is actually happening would become the new target - nothing substantive would change - though this would still be a market moving change.

On the Philippine 4Q17 GDP print, the consensus is very tight at around 6.7%YoY. This would only be 0.1pp short of Chinese GDP growth at the same point, just in case you had forgotten that there are other rapidly growing economies in Asia. There are a few.

The consensus for December CPI inflation in Singapore is only 0.5%YoY. This would be a fairly dismal result if it happened, and a decline from 0.6%YoY in November. We are taking a brighter view, based on previous trends in month on month growth in December, and look for a figure of 0.8%YoY. Unlike the Philippine GDP forecast, the consensus is far from tight on this number, ranging from 0.4%YoY to 1.0%YoY. Were we to see the consensus view prevail, it would weigh against our forecast of an April MAS policy tightening, which still remains a hesitant judgement call.

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