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FX Morning | Global

Economic... USD is likely to remain under selling pressure with commodity-supported [EMFX taking the lead](#). DM breakeven rates have moved higher with Germany's 5-year rate now trading at its YTD high, suggesting that reflation optimism has grown. Copper – which still trades within its tight range defined since mid-February – may break out due to increasing growth and trade optimism. Lately, China has reported [better PMIs, exports](#), real estate and [credit data](#), suggesting that [this week's 1Q GDP](#) report may beat expectations, which should provide additional support for the high-yielding EM currency spectrum.

...and trade optimism grow... Importantly, US negotiators have [tempered demands that China curb industrial subsidies](#) as a condition for a trade deal after strong resistance from Beijing. [US Treasury Secretary Mnuchin suggested](#) that a US-China trade agreement would go "way beyond" previous efforts to open China's markets to US companies and hoped that the two sides were "close to the final round" of negotiations. While a market-friendly outcome of the US-China trade talks may have been mostly priced in by risky assets and FX markets, it is the combination of easing trade tensions and signs of rebounding global economic activity maintaining investor risk friendliness for now.

...and with the Fed staying pressured... The US Treasury's semi-annual report on the macroeconomic and FX policies of major trading partners will be due soon, giving an extra incentive to countries on the monitoring list to allow their currencies to appreciate. Note, US Treasury Secretary Mnuchin suggested that a currency clause will be included in any potential US-Japan trade deal to prevent deliberate manipulation of JPY to bolster exports, [according to media reports](#). Simultaneously, on Sunday, President Trump commented that the economy and stock market would be growing faster ["if the Fed had done its job properly, which it has not"](#), not only indicating mounting pressure on the Fed to tolerate higher inflation rates, but also making it increasingly clear that the US may aim for a weaker USD. [The ECB's Draghi suggested](#) that he is worried about central bank independence, especially in "the most important jurisdiction in the world".

...to remain accommodative... All these meet a market which is pushing EUR and MXN positioning to fresh extremes. According to the latest CFTC report, investors were modest sellers of EUR and buyers of MXN. EUR has been increasingly used for funding purposes, even for EM investments including MXN. European bank shares, to which EURUSD has had an increasingly close relationship in the post-Lehman world, have rallied ([Exhibit 1](#)). Tomorrow will see the release of the [April ZEW survey](#) which, in light of better Chinese data, easing Brexit concerns and the generally stronger equity market, should resume its rebound from its February lows. The [April PMI flash estimates](#) will be due on Thursday and, after the astonishingly weak March report, a better reading here should push EURUSD easily above Friday's 1.1325 high.

...USD should trade lower: While EUR offers low funding costs, it is the EUR funding-related short positions which could push EUR higher as data improve. Over recent days, German 5-year breakeven rates have caught up with the rise of

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US breakeven rates, and EMU sovereign spreads have come in. Interestingly, the ECB's nowcasting model, presented to policy-makers at Wednesday's Governing Council meeting, indicated that 1Q quarterly growth was just above 0.2% and may be somewhat weaker in 2Q, [according to Reuters](#). Even so, there have been four ECB Governing Council members (Draghi, Rehn, Villeroy and Vasiliauskas) talking up the prospects of EMU economy for this year, arguing that some of the factors like Brexit, trade protectionism and political uncertainties have been easing. This evening, French President Macron plans to address the nation to announce a set of measures following a 10-week national debate devised to assuage grassroots discontent. A relaunch of his presidency – a month ahead of the European Parliament elections which is seen as a referendum on his policies – could add to EUR optimism.

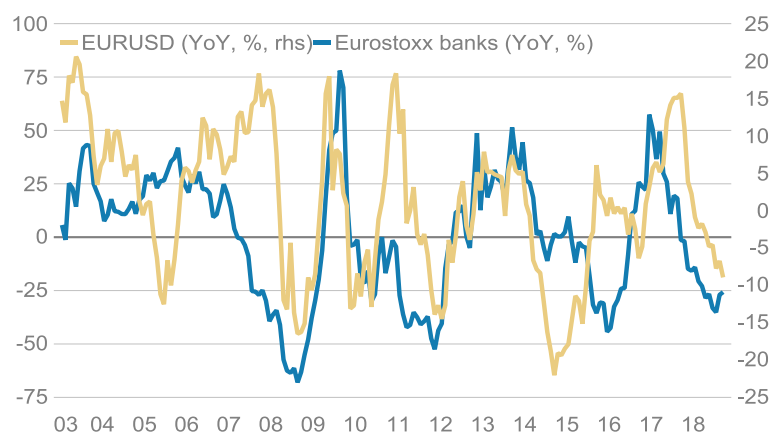
Capex and dollars: The IMF Financial Stability report sheds some light on global leverage, focusing on the US corporate sector. US investment spending plans have been scaled back, reducing hope of the US entering a productivity-enhancing investment cycle. The average US corporate tax rate has declined from 30% to 15% in 2017, pushing the US cash flow to asset rate from 1.5% in 2016 to 2% nowadays. However, better cash flow conditions increased the corporate payout from 0.45% of assets in 2010 to 0.9% instead of boosting capex. This is why the US fiscal impulse has failed to develop meaningful economic growth-generating multiplying effects, helping to explain why the US administration has become more vocal on encouraging the Fed to stay accommodative. The absence of US capex strength may translate into meaningful USD weakness.

Trades of the week

- Buy EURUSD at market with a target of 1.18 and stop of 1.1170
- Sell USDIDR 3m NDF at market with a target of 13850 and stop of 14790

Click through for our [Trade Ideas of the Week](#) and [Week Ahead Calendar](#)

Exhibit 1: Eurostoxx banks have led EURUSD in the post-Lehman world



Source: Bloomberg, Macrobond, Morgan Stanley Research

Trade Ideas of the Week

G10 – Buy EURUSD

We like buying EURUSD this week. Optimism on growth in the rest of the world rebounding should weaken USD and help EUR. Rebounding China data should filter through to better eurozone data over the coming months. This could come through in this week's German April ZEW survey and eurozone April flash PMI, helped further by easing Brexit concerns and generally stronger equity markets. While EUR offers low funding costs, it is the EUR-funding related short positions which could push EUR higher as data improve. Over recent days, German 5-year breakeven rates have caught up with the rise in US breakeven rates, and EMU sovereign spreads have come in. This meets a market that is positioned very short EUR and very long USD. The risk to this trade is a downside surprise in eurozone April data.

We like to buy EURUSD at market with a target of 1.1800 and stop of 1.1170.

EM – Sell USDIDR 3m NDF

We recommended selling USDIDR on the back of stronger-than-expected economic data from China and general improving risk sentiment globally. This should benefit higher yielders such as IDR. The trade balance today surprised the market on the upside: US\$540 million versus a US\$177 million deficit expected by the market. A trade surplus in the past two months should support the current account in 1Q19. Meanwhile, Indonesia will hold its election on April 17 and the incumbent government is ahead of opposition parties according to various polls. Investors have stayed away from the fixed income market since the start of April but a continuation of the pro-growth policy should the incumbent administration win would prompt investors to add IDR local assets again. The risk to the trade is a spike in UST yields or a further rally in oil prices.

We like to sell USDIDR 3m NDF at market with a target of 13850 and stop of 14790.

Week Ahead Calendar

Click on an event below to see our economists' analysis or [click here](#) for an interactive, searchable calendar.

Exhibit 2: Week Ahead Calendar

Date	Time (Ldn)	Ccy	Event	Ref. Period	MS forecast	Market	Previous
15-Apr	N/A	INR	Trade Balance	Mar	-\$9.4B	\$-9.7B	\$-9.6B
15-Apr	N/A	INR	Exports (YoY)	Mar			2.4%
15-Apr	09:00	CHF	SNB Sight Deposits				576.3B
15-Apr	09:00	PLN	CPI (YoY)	Mar F	1.7%		1.7%
15-Apr	13:30	USD	Empire Manufacturing	Apr		8	3.7
15-Apr	13:30	USD	Fed's Evans (voter) spks				
15-Apr	14:00	CAD	Existing Home Sales (MoM)	Mar		2%	-9.1%
15-Apr	15:30	CAD	Business Outlook Future Sales	1Q			-1
15-Apr	15:30	CAD	BoC Senior Loan Officer Survey	1Q			-15.97597
15-Apr	16:30	ILS	CPI (YoY)	Mar		1.3%	1.2%
15-Apr	17:00	GBP	BoE's Haskel spks				
15-Apr	17:30	EUR	ECB's Villeroy spks				
15-Apr	18:00	USD	Fed's Evans (voter) spks (Monetary Policy)				
15-Apr	21:00	USD	Total Net TIC Flows	Feb			-143.7B
15-Apr	N/A	ARS	BCRA Rates Decision				66.813%
15-20 A	N/A	CHF	Swiss House Prices	1Q			468.5
15-18 A	N/A	CNY	Foreign Direct Investment (YoY, CNY)	Mar			6.6%
16-Apr	00:30	AUD	Consumer Confidence				113.2
16-Apr	01:00	USD	Fed's Rosengren (voter) spks				
16-Apr	02:30	CNY	New Home Prices (MoM)	Mar			0.53%
16-Apr	02:30	AUD	RBA Minutes	Apr-2			
16-Apr	05:30	JPY	Tertiary Industry Index (MoM)	Feb	-0.1%	-0.2%	0.4%
16-Apr	09:30	GBP	Jobless Claims Change	Mar			27k
16-Apr	09:30	GBP	Average Weekly Earnings (Inc. Bonuses, 3M/Y)	Feb	3.6%	3.5%	3.4%
16-Apr	09:30	GBP	Average Weekly Earnings (Ex. Bonuses, 3M/Y)	Feb	3.4%	3.4%	3.4%
16-Apr	09:30	GBP	ILO Unemployment Rate 3Mths	Feb	3.9%	3.9%	3.9%
16-Apr	09:30	GBP	Employment Change (3M/3M)	Feb	134k	181k	222k
16-Apr	10:00	EUR	Construction Output (MoM)	Feb			-1.4%
16-Apr	10:00	EUR	German ZEW Survey Current Situation	Apr		8.5	11.1
16-Apr	10:00	EUR	German ZEW Survey Expectations	Apr	-1.0	0.5	-3.6
16-Apr	10:00	EUR	Eurozone ZEW Survey Expectations	Apr			-2.5
16-Apr	11:00	ILS	GDP (QoQ)	4Q F			3%
16-Apr	N/A	NZD	Global Dairy Trade Releases Milk Auction Results				
16-Apr	13:30	CAD	Manufacturing Sales (MoM)	Feb		-0.1%	0.98%
16-Apr	14:15	USD	Industrial Production (MoM)	Mar	0.0%	0.2%	0%
16-Apr	14:15	USD	Manufacturing Production (MoM)	Mar		0.1%	-0.4%
16-Apr	14:15	USD	Capacity Utilization	Mar		79.2%	79.1%
16-Apr	14:50	EUR	ECB's Nowotny spks				

16-Apr	15:00	USD	NAHB Housing Market Index	Apr		63	62
16-Apr	18:00	EUR	ECB's Lane spks (Irish Economy)				
16-Apr	19:00	USD	Fed's Kaplan (non-voter) spks				
16-Apr	20:00	ARS	CPI (MoM)	Mar	3.8%	4.05%	3.8%
16-Apr	23:45	NZD	CPI (YoY)	1Q		1.7%	1.9%
16-Apr	N/A	ARS	BCRA Rates Decision				
17-Apr	00:50	JPY	Trade Balance	Mar	350B	363.2B	334.9B
17-Apr	00:50	JPY	Exports (YoY)	Mar	-2.7%	-2.6%	-1.2%
17-Apr	01:00	IDR	Indonesia Presidential/General Elections				
17-Apr	01:30	AUD	Westpac Leading Index (MoM)	Mar			0%
17-Apr	01:30	SGD	Non-oil Domestic Exports (YoY)	Mar		-1.45%	4.9%
17-Apr	02:10	JPY	BoJ Outright Bond Purchase 5-10y				
17-Apr	03:00	CNY	Fixed Assets Ex Rural YTD (YoY)	Mar	6.5%	6.3%	6.1%
17-Apr	03:00	CNY	Industrial Production (YoY)	Mar	5.7%	5.9%	5.7%
17-Apr	03:00	CNY	Retail Sales (YoY)	Mar	8.1%	8.4%	8.2%
17-Apr	03:00	CNY	Unemployment Rate	Mar			5.3%
17-Apr	03:00	CNY	GDP (YoY)	1Q	6.2%	6.3%	6.4%
17-Apr	05:30	JPY	Industrial Production (MoM)	Feb F			1.4%
17-Apr	09:00	ZAR	CPI (YoY)	Mar	4.7%	4.5%	4.1%
17-Apr	09:00	EUR	Italian Current Account Balance	Feb			3m
17-Apr	09:00	EUR	Euro-Area Current Account	Feb			36.8B
17-Apr	09:00	EUR	Italian CPI (YoY)	Mar F	1.0%	1.1%	1.1%
17-Apr	09:30	GBP	CPI (YoY)	Mar	2.0%	2%	1.9%
17-Apr	09:30	GBP	CPI Core (YoY)	Mar	1.9%	1.9%	1.8%
17-Apr	10:00	EUR	Trade Balance	Feb			17.04B
17-Apr	10:00	EUR	CPI Core (YoY)	Mar F	0.8%	0.8%	0.8%
17-Apr	10:00	EUR	CPI (YoY)	Mar F	1.4%	1.4%	1.4%
17-Apr	10:00	EUR	Italian Trade Balance	Feb			322m
17-Apr	13:30	CAD	Trade Balance	Feb		-3.38B	-4.25B
17-Apr	13:30	CAD	Core CPI - Common (YoY)	Mar		1.8%	1.8%
17-Apr	13:30	CAD	CPI (YoY)	Mar		1.9%	1.5%
17-Apr	13:30	USD	Trade Balance	Feb		-53.5B	-51.1B
17-Apr	14:00	EUR	ECB's Villeroy spks				
17-Apr	14:00	GBP	BoE's Carney spks				
17-Apr	15:00	USD	Wholesale Inventories (MoM)	Feb		0.3%	1.2%
17-Apr	15:30	USD	EIA Crude Oil Inventories				7029k
17-Apr	15:30	EUR	ECB's Lautenschlaeger spks				
17-Apr	17:30	USD	Fed's Harker (non-voter) spks (Economy)				
17-Apr	17:45	USD	Fed's Bullard (voter) spks (Economy)				
17-Apr	19:00	USD	Fed Releases Beige Book				
17-Apr	N/A	ARS	BCRA Rates Decision				
17-22 A	N/A	JPY	Nationwide Dept Sales (YoY)	Mar			0.4%
18-Apr	N/A	KRW	BoK Rates Decision		1.75%	1.75%	1.75%
18-Apr	N/A	INR	India General Election (Second Phase)				
18-Apr	00:50	JPY	Japan MoF Weekly Security Flow				
18-Apr	02:30	AUD	NAB Business Confidence	1Q			1
18-Apr	02:30	AUD	Employment Change	Mar	15k	15k	4.6k
18-Apr	02:30	AUD	Unemployment Rate	Mar	5.0%	5%	4.9%

18-Apr	05:00	SEK	Valueguard Home Price Data	Mar			
18-Apr	07:00	EUR	German PPI (YoY)	Mar	2.5%	2.7%	2.6%
18-Apr	08:15	EUR	French PMI Manufacturing	Apr P		50	49.7
18-Apr	08:15	EUR	French PMI Services	Apr P		49.8	49.1
18-Apr	08:30	EUR	German PMI Manufacturing	Apr P		45	44.1
18-Apr	08:30	EUR	German PMI Services	Apr P		55	55.4
18-Apr	08:30	SEK	Unemployment Rate	Mar		6.55%	6.6%
18-Apr	09:00	EUR	PMI Manufacturing	Apr P	47.8	48	47.5
18-Apr	09:00	EUR	PMI Services	Apr P	53.3	53.2	53.3
18-Apr	09:00	EUR	PMI Composite	Apr P	51.7	51.8	51.6
18-Apr	09:00	EUR	Italian Industrial Orders (MoM)	Feb			1.8%
18-Apr	09:30	GBP	Retail Sales (MoM)	Mar	-0.9%	-0.3%	0.2%
18-Apr	09:30	GBP	BoE Credit Conditions Survey				
18-Apr	13:30	CAD	Retail Sales (MoM)	Feb		0.4%	-0.3%
18-Apr	13:30	CAD	ADP Employment Change	Mar			
18-Apr	13:30	USD	Retail Sales Advance (MoM)	Mar	1.1%	1%	-0.2%
18-Apr	13:30	USD	Retail Sales Ex Auto (MoM)	Mar	0.7%	0.7%	-0.4%
18-Apr	13:30	USD	Retail Sales Control Group (MoM)	Mar	0.2%	0.5%	-0.2%
18-Apr	13:30	USD	Initial Jobless Claims			205k	196k
18-Apr	13:30	USD	Philadelphia Fed Business Outlook	Apr		10.5	13.7
18-Apr	14:45	USD	PMI Manufacturing	Apr P		52.8	52.4
18-Apr	14:45	USD	PMI Services	Apr P		55	55.3
18-Apr	15:00	USD	Leading Index	Mar	0.3%	0.4%	0.2%
18-Apr	15:00	USD	Business Inventories	Feb		0.3%	0.8%
18-Apr	17:10	USD	Fed's Bostic (non-voter) spks (Monetary Policy)				
19-Apr	00:30	JPY	CPI (YoY)	Mar	0.5%	0.5%	0.2%
19-Apr	00:30	JPY	CPI Ex Fresh Food (YoY)	Mar	0.7%	0.7%	0.7%
19-Apr	00:30	JPY	Natl CPI Ex Fresh Food, Energy (YoY)	Mar	0.4%	0.4%	0.4%
19-Apr	02:10	JPY	BoJ Outright Bond Purchase 1-3y, 3-5y, 10-25y, 25y+				
19-Apr	09:00	EUR	Italian Consumer Confidence Index	Apr		111.3	111.2
19-Apr	09:00	EUR	Italian Business Confidence	Apr	100.5	100.9	100.8
19-Apr	13:30	USD	Housing Starts	Mar	1189k	1230k	1162k
19-Apr	13:30	USD	Housing Starts (MoM)	Mar	2.3%	5.9%	-8.7%
21-Apr	N/A	UAH	Ukraine Presidential Election (Second Round)				

Source: Bloomberg, Morgan Stanley Research

Appendix

Exhibit 3: History of recommendations for short USDIDR 3m NDF

Instrument	Maturity	Trade	Entry Date	Entry Level	Exit Date	Exit Level	Target/ Objective	Stop/Re- assess	Size of Trade or Unit/Notional	CUSIP/ISIN/ BLOOMBERG
USD/IDR	3m	Short USD/IDR 3m NDF	13-May-18	14360	07-Jun-18	14126	13500	14560	10m	IHN+3M Curncy
USD/IDR	3m	Buy USD/IDR 3m NDF versus sell USDIDR 6m NDF	1-Oct-18	225	05-Oct-18	280	100	280	10k	IHN+3M Curncy
USD/IDR	6m	Buy USD/IDR 3m NDF versus sell USDIDR 6m NDF	1-Oct-18	225	05-Oct-18	280	100	280	10k	IHN+6M Curncy
USD/IDR	3m	Short USD/IDR 3m NDF	15-Nov-18	14755	07-Jan-19	14300	14300	14900	\$10m	IHN+3M Curncy

Source: Morgan Stanley Research

Definition of terms

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