FX Market Developments Q4 2019

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Trade
Tariffs: cause and effect

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Reduced policy response

- China CAI's showing signs of stabilisation…
- …despite a reduced policy response …
- …whilst FX policy continues to favour stability

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USA and DXY
Rotating risks

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Europe and UK
Industrial malaise and Brexit risk premium

- European slowdown largely focused on manufacturing sector
- Headwind of carry cost slowly diminishing
- UK assets remain a structural underweight

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Positioning
Corrections under way, but much further to run

- Non-Commercial positions maintain EUR shorts
- EUR still represents largest proportion of USD positioning
- GBP positioning remains underweight

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Valuations / performance
USD too strong, volatility too low, EMFX not weak

- EMFX performance has been better than implied versus the USD
- G10 FX vol stands out as being notably low
- Equities and bonds have both outperformed, a repeat will be difficult

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