Another noisy week in FX

If there were better stories overseas, we suspect the dollar would be a little weaker right now, given the impeachment inquiry and raft of US data due out. But there are not

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USD: Manufacturing, jobs and impeachment will drive the dollar this week

It's going to be another noisy week for the dollar – lots of inputs, but little clarity over a new directional trend. A series of US manufacturing surveys through the week will determine whether the slowdown in overseas trade continues to weigh on manufacturing confidence (September ISM released tomorrow) and add to fears over slowing investment. The week will also culminate in the September nonfarm payrolls reading, where headline job gains are expected to settle into the +150k area and earnings remain firm. We'll probably also hear much more from the House regarding its plans to impeach President Trump. It seems the whistleblower is ready to testify and the House is increasingly interested in whether transcripts of some of President Trump's key phone calls have been fairly filed under 'classified'. There is an argument out there that the House will try to extend this impeachment process as long as possible, knowing that it will be shut down (the President not removed from office) when it's handed over to the Republican-controlled Senate. Were there better stories overseas, we suspect the dollar might be a little weaker right now, but there are not (industrial production numbers are still plumbing the depths in many countries) and thus the dollar is holding its gains. DXY to stay bid near 99.00/50.

EUR: WTO ruling in focus this week

EUR/USD remains fragile and could easily drift down to the 1.0820/40 area this week. Away from what will be another soft set of eurozone inflation readings (1.0%) announced tomorrow, there could also be renewed focus on US-EU trade relations. Here the World Trade Organization this week is likely to give the US permission for retaliatory tariffs against the EU for unfair subsidies in support of Airbus. (A similar ruling against the US and Boeing may appear next year). Signs that the US will want to flex its tariff muscles against the EU may bode ill for the EU auto sector in November and keep the euro under pressure.

GBP: Making little progress with the backstop

Despite many billions being announced in spending pledges (all subject to which party wins an election likely held before year-end), hopes of the government securing a Brexit withdrawal agreement seem slim. Latest suggestions of: (i) a time-limited Irish backstop or (ii) an all-Ireland customs solution appear to be leading nowhere. EUR/GBP seems fairly priced around 0.89 given all the possible paths from here, but our bias would be towards the 0.92 area as an uncertainty premium is re-introduced over coming weeks.

ZAR: Staying soft through October

The South African rand could stay on the backfoot this month ahead of the budget on 30 October and Moody's rating review on 1 November – where risks of a downgrade could again prompt fears of expulsion from key local currency bond benchmarks. One of the few areas of support to the rand this week may come from the fact that China is celebrating its 70th anniversary during Golden Week celebrations and that the Chinese yuan – a key driver of the rand – should be relatively stable.

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