

Daily FX Strategy: Fade sterling strength

Like his predecessor, new Prime Minister Boris Johnson is likely to face an uphill battle when it comes to Brexit. This suggests a softer pound



⬆️ USD: Global central bank easing not fully priced in

The planned [resumption of US-China trade talks for next week](#) should be seen as marginally positive for the US dollar as it has reduced any imminent need for an aggressive Federal Reserve easing cycle beyond the already meaningful rate cuts priced in for this year. Coupled with rising market expectations of more easing (still to a degree not priced in) to come from other central banks (ECB, Reserve Banks of New Zealand and Australia), this translates into US dollar support, with DXY heading back towards the 98.00 level.

⬇️ EUR: Lower EUR and stronger CHF

Eurozone July PMIs are not expected to rebound, with the manufacturing series remaining in contractionary territory. This will continue to build the case for ECB easing, with EUR/USD already starting to front run the likely [dovish ECB message tomorrow](#). We continue to expect the cross to test the 1.1100 level this week. With expectations building of ECB easing, EUR/CHF remains under pressure and has broken below the psychological 1.1000 level. As per [EUR/CHF: It's beginning to look a lot like 1.05](#), we are looking for lower EUR/CHF, consistent with the inflation-adjusted Swiss franc trade-weighted index moving back to 2015 highs as the Swiss National Bank won't be able to offset ECB easing.

⬇️ GBP: Strength to be faded as we get closer to general election

After winning the leadership battle with a comfortable margin (with around two thirds of the votes), Boris Johnson is set to appoint senior cabinet figures this evening, with more pro-Brexit candidates being appointed. Like his predecessor, the new PM is likely to face an uphill battle given the divided parliament and no consensus on the shape of a Brexit deal among MPs. As a result, we think [a general election is increasingly likely - maybe even inevitable](#). This suggests a softer pound ([EUR/GBP closer to 0.95 and GBP/USD below 1.20](#) in the case of a general election) meaning that any GBP strength should be faded in our view.

➡️ NZD: QE is still far off, but RBNZ remains dovish

Markets rushed to sell the New Zealand dollar yesterday after the RBNZ revealed that it is “scoping a project” to introduce unconventional monetary policy tools. Given that the process is “at a very early stage”, we find it unnecessary for now to attach any probability of the RBNZ announcing quantitative easing imminently, in particular before data provides more clarity on the inflation and growth outlook. While the market may have overreacted to the news – and the New Zealand dollar may stay supported today – we still believe this has been a confirmation that more easing lies ahead. In our view, the next -25 basis point adjustment may come as early as August. When adding lingering trade-related uncertainty and the spectre of slowing Chinese demand, NZD/USD may fall towards 0.65 in the coming weeks.