Daily FX Strategy: Only short-lived rebound for sterling

A possible rebound in UK retail sales may help to support sterling today after a sharp fall earlier in the week. But concern over Brexit will keep the pressure on

USD: Fed speakers to have little impact

Two weeks away from the FOMC meeting, markets appear still undecided about the magnitude of the upcoming easing move. Fed Funds futures are showing implied probabilities split 65%/35% in favour of a 25bp cut versus a 50bp cut. The Beige Book report, released yesterday, hinted at trade-related concerns for the US economy. Trade tensions have been the major driver of rate expectations recently after comments by President Trump raised fears of a possible re-escalation. The crowded agenda of Fed speakers thus far in the week appears to have had only a limited impact and we do not expect today's remarks by Fed members Raphael Bostic and John Williams to prompt much reaction in the market. Elsewhere, a quiet data schedule should reduce pressure on the US dollar.

EUR: Brace for Italian risk ahead

The election of EU Commission President Ursula von der Leyen by a very narrow majority may have raised concerns about the stability of the newly-formed European administration. What may be equally concerning, is that only one party in the current Italian coalition (5 Star) voted in favour, while the League voted against. It is another sign that the already faltering coalition may soon break down. At this stage, it is fair to assume that markets should prepare for more Italy-induced volatility in rates and FX markets ahead. Along with a dovish ECB, this may be a temper EUR/USD upside in the coming months.

GBP: Another attempt to stop a suspension of Parliament

Sterling has staged a timid rebound after dramatically falling on Tuesday. Brexit fears were partly mitigated by a move by British MPs aimed at averting a Parliament suspension, which may allow the future PM (in all probability Boris Johnson) to force a no-deal solution. Today, a scheduled debate in the House of Commons on the matter may provide more clarity. Add to this a possible rebound in June retail sales, and GBP may stay supported on the day. Nonetheless, we expect the 0.90 level in EUR/GBP to be a solid support for the pair. Looking ahead, we remain highly sceptical that any GBP rally will prove sustainable and expect pressure on GBP to keep mounting.

AUD: Mixed labour data hint at extended RBA pause

The June jobs report released overnight showed a fairly robust increase in full-time job creation, although unemployment stayed at 5.2%. The Reserve Bank of Australia cut twice (in June and July) in an effort to lower unemployment and revamp inflation, and markets are pricing in a 18 basis point cut by year-end. Given unclear indications from the jobs market we suspect that the RBA may extend its current wait-and-see attitude for the next few months. This should leave AUD mainly driven by external factors, with the fear of rising trade tensions possibly triggering a downside correction in AUD/USD, which may test the 0.7018 100-day moving average support.

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