# Daily FX Strategy: The US–Eurozone data divide

Solid US data and only a modest rate cut from the Federal Reserve should keep the dollar supported this week, as data from the eurozone continues to disappoint

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## USD: Still supported vs EUR and JPY, possible short-term softness vs EM

An FOMC meeting (Wednesday) delivering a rate cut of just 25 basis points (vs 29bp cut priced in) and solid US data (rebounding ISM manufacturing on Thursday and solid US labour market report expected on Friday - with rising nonfarm payrolls and a pick-up in wage growth) should keep the dollar's support in place this week against low yielders such as the euro and yen. Soft data in the eurozone or a more dovish central bank bias from the Bank of Japan could keep the downside in the respective currencies vs USD in place.

Still, an easing Fed might lend some support to emerging market FX vs the US dollar (and vs the euro in particular) later in the week. However, unless the Fed signals a more pronounced easing cycle (already four cuts priced in by end-2020), EM FX gains may not be sustained particularly if the trade uncertainty continues (trade talks are resuming this week) and the eurozone economy shows further signs of a slowdown.

## EUR: Hard eurozone data to underline case for ECB easing

The hard eurozone data releases this week should further cement the ECB's dovish guidance from last week and justify the case for a likely package of easing measures in September (20bp rate cut and a re-introduction of quantitative easing). Second quarter eurozone GDP growth (Wednesday) has likely slipped and both headline and core CPI (Wednesday) should have remained weak. Such soft eurozone data should be at odds with solid US data this week (see above) and will likely translate into EUR/USD breaking the 1.1100 support level that managed to hold after the ECB meeting last week.

## GBP: More weakness to come as hard Brexit prospects weigh on GBP

With the new government rhetoric on a hard Brexit firming (Michael Gove's comments that "no deal is now a very real prospect") and the rising likelihood of early elections, sterling should remain under pressure and head towards EUR/GBP 0.95 / below USD/GBP 1.20 level over the coming months if early elections do indeed materialise and the Conservative party under Prime Minister Boris Johnson runs on a ticket of a divisive Brexit stance against the EU.

## JPY: BoJ may take wait-and-see approach

With other central banks turning more dovish, Bank of Japan officials (announcing policy on Tuesday) may feel the pressure to either (a) ease monetary policy or (b) change the forward guidance. The first option seems unlikely and markets currently attach only a 13% probability of a rate cut. Conversely, should the BoJ wish to tweak its forward guidance it would likely extend its pledge to low rates beyond spring 2020. Nonetheless, considering the imminent FOMC meeting, the BOJ may err on the side of caution by simply reiterating the current policy stance. Despite most risks appearing to be on the upside today / this week, we continue to expect USD/JPY to move lower in coming months, in tandem with an eventually narrowing UST-JGB spread.