

Daily FX strategy: Wrong footed again

It's a closer US election race than was first expected. Here's what to expect on the FX markets



📈 USD: Uncertainty to continue

Results so far for the Presidential election point to:

1. a much closer race than the polls suggested with President Trump having a better than expected chance of staying in the White House,
2. many concluding that Pennsylvania, Michigan & Wisconsin will determine who wins the White House – but results not due there possibly until Friday, but
3. Biden potentially still becoming President, even if he loses Pennsylvania.

Clearly, this election is much closer than the market expected and generates a higher probability of a contested, 2000-like scenario, when the Supreme Court took a month to effectively decide on the outcome. FX markets don't look priced for such uncertainty and we see upside risks for the dollar against the popular currencies linked to the reflation trade, i.e. NOK and AUD in the G10 space (as per our G10 FX election scorecard) and the CNH, MXN and ZAR in the EM space.

Away from the White House, it also seems poorer Democrat polling than expected reduces the chances of the Democrats taking the Senate – meaning a split Congress and potentially more defensive policy from the White House. Unless Georgia or North Carolina surprisingly fall to Biden today, expect FX markets to bounce around in response to updates from the Rust-Belt states – but probably amidst a risk-averse backdrop. DXY probably risks a move up to 94.30/70, JPY to out-perform

⬇️ EUR: Long EUR positioning at risk

Despite broadening lockdowns across Europe, EUR/USD had up until recently stayed supported on the view of a better global backdrop from the US election (clean sweep plus better trade environment). The much closer race than expected is clearly something of a shock and we're surprised EUR/USD has not broken below 1.1600 already. We would say 1.1500 is the risk over the next few days. Again, the risk of a contested election is greater than expected and we would not be surprised to see Dow futures turn lower – after all, US equities fell 8% in November 2000 as the Supreme Court deliberated over the Florida recount

➡️ GBP: Break-out

EUR/GBP has broken below key support at 0.9000 and with the external environment leaving the EUR more vulnerable than expected, EUR/GBP could extend down towards the 0.8900 area – especially if PM Johnson chooses this week to announce progress on Brexit talks.

⬇️ EM FX: A tougher than expected

Investors had certainly been positioning for a Biden clean sweep and the likes of MXN, CNH and ZAR are bearing the brunt of today's sell-off. A contested election, split Congress, legal challenges and broadening lockdowns in the northern hemisphere now suggest EMFX will have a challenging few weeks.

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