Daily FX: Yuan back to the 7.00 dilemma

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USD: Eyes remain on China

Chinese equities' extraordinary rally remains in focus as a key driver of sentiment, as the CSI 300 rose again by more than 2% and volumes spiked.

The yuan continues to benefit from equity flows and CNH has briefly traded below 7.00 for the first time in around three months. For now, the People's Bank of China appears relatively comfortable with the yuan's appreciation and has kept adjusting its USD/CNY fixing lower, in line with the model-based estimates. If the Chinese stock run extends in the coming days – and barring major swings in global risk sentiment – investors will get the chance to assess the PBOC's tolerance for a stronger yuan. It is also worth mentioning that the US Treasury FX report is still to be published and – as we highlighted in our preview – we cannot exclude that China can be labelled a manipulator again if tensions with the US flare up again (the PBOC allowing USD/CNY to move above 7.00 was the trigger for the "manipulator" designation last year).

Elsewhere, global equity futures point at a mildly negative start today, which might be a physiological correction from yesterday's rally, and USD is finding some respite. All in all, G10 FX appears to be lacking a key catalyst for the rest of this week and volatility may remain subdued across the board. In a rather quiet calendar today, four Fed speakers (Bostic, Quarles, Daly and Barkin) will be heard, although it seems hard to expect any comment to hint at a change in the quite consolidated FOMC's stance.

US Treasury FX report preview: Three and a half manipulators

EUR: Some good news from Italy

The Italian government announced a bold investment plan to revive a depressed growth outlook and thereby trying to put pressure on the soaring debt-to-GDP ratio.

The move may somewhat ease the concerns of some of the "frugal" EU members as negotiations over the EU Recovery fund continue. This may ultimately turn out to be a EUR positive, but for now, tight ranges should prevail and EUR/USD should stay around the 1.1300 level today.

GBP: Andy Haldane's speech in focus

In an otherwise empty calendar in the UK, some attention will be on a speech by Bank of England's AndyHaldane at a webinar.

Any policy comment should be along the lines of last week's remarks when he set out the case that the recovery is faster than expected and no more QE was needed.

GBP reaction should be muted.

AUD: No surprises from the RBA

As expected, the Reserve Bank of Australia kept rates and its policy stance on hold today.

Highlights from the statement include: (a) despite the pace of asset purchases having decreased lately, the Bank is ready to scale them up again if needed, (b) no policy normalisation before progress is made towards the inflation and employment goals, and (c) the contraction has been somewhat smaller than previously expected.

All in all, the meeting does not change our view on AUD, which we expect to face downside risks in the short term, also on the back of the flare-up in cases in Australia and fresh lockdown measures.

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