Dollar falling like a House of Cards

White House drama steals limelight from Jackson Hole as politics trumps economics for the politically paralysed USD

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Theme of the week: White House drama overshadows Jackson Hole

There is little love lost for the dollar right now, with the currency fast becoming a sell on the current White House drama. It is a bit strange to see both speculative and actual personnel changes within the White House causing such a stir for global markets, though we may be able to put this down to summer markets. Still, we prefer to focus on the broader economic implications of US politics and what this means for the dollar.

In addition to diminishing odds of any pro-growth policies from the Trump administration, we believe the narrative is shifting towards political uncertainty having a dampening effect on business confidence and investment activity. Given that US political environment remains frenetic, the risk relief rally seen late on Friday may prove to be short-lived and this could well keep the dollar pinned down over the coming weeks.

It looks like top central bank officials - including ECB President Mario Draghi and Fed Chair Janet Yellen - will remain tight-lipped over future policy plans at Jackson Hole this week, with a big picture focus on central banking and the global economy removing any significant event risk for markets. While Draghi will undoubtedly sound more upbeat on the prospects for the Eurozone economy relative to his 2014 Jackson Hole speech, we do think the ECB chief will be more careful with his choice of words when speaking in Lindau (Wednesday) and Jackson Hole (Friday) this week. Indeed, the July minutes expressed concerns over a possible front-running of ECB policy normalisation within markets, which to some extent highlights the current market-sensitive nature of central bank talk.

Despite taking this verbal hit from the ECB last week, the EUR continues to show the resilience of a boxer refusing to go down; at this stage, it may be as much to do with a politically paralysed USD than it is the inability of a major central bank to effectively talk down its currency. We remain tuned to see what unfolds next in the ongoing White House drama.

Majors: Don't expect any fireworks from Draghi

In the absence of any surprise ECB or Fed policy news at Jackson Hole this week, there will be little impetus for EUR/USD to breakout of the narrow 1.17-1.18 trading range this week.

EUR: No policy talk at Jackson Hole points to stability

- Market chatter that President Draghi won't say anything new on the ECB's policy stance during his speech at the Jackson Hole symposium (24-26 August), as well as the lack of key data catalysts in the US and Eurozone, suggest a continuation of range-bound activity in EUR/USD. We look for the broad 1.1630-1.1910 range to hold this week but expect narrower trading in a quiet summer market.
- August Eurozone PMIs (Wednesday) should remain broadly unchanged, and so should the August German Ifo survey (Friday). With the dollar currently paralysed by domestic politics, we see little reason for EUR/USD to break our expected weekly range in either direction.

		Week ahead bias	Range next week	1 month target
EUR/USD	Spot ref: 1.1750	Neutral	1.1630-1.1910	1.18

JPY: Running out of reasons to chase USD/JPY higher

- The politically paralysed USD and no new policy signals from Fed speakers at Jackson Hole suggest fairly limited US-centric catalysts for a move higher in USD/JPY. An easing of geopolitical risk aversion may limit further downside beyond 108.50, though we believe the uncertain US political backdrop will keep the dollar on the back foot.
- On the Japanese data front, we have national and Tokyo July CPI this week (Friday). The annual core reading should rise modestly from 0% to 0.1%, suggesting a bottoming out of disinflation dynamics. Yet, with inflation still substantially below the 2% target, this is unlikely to prompt any Bank of Japan policy repricing.

		Week ahead bias	Range next week	1 month target
USD/JPY	Spot ref: 109.30	Neutral	108.30-110.90	113

GBP: Under pressure as Brexit noise returns to haunt

- The UK government outlined its position on future customs arrangements with the EU last week and while a transitional period is sought, the lack of clarity on its length may be seen as a near-term disappointment. We expect GBP to trade with a negative bias ahead of the Tory party conference and key Brexit talks in October. But it's difficult to see any material GBP fallout in the absence of any flaring tail risks such as a breakdown in the negotiations and renewed cliff-edge Brexit risks. We'll be closely watching how business sentiment is holding up in the August CBI surveys (Tuesday & Thursday).
- A mixed bag for UK data last week has put talks of a Bank of England (BoE) rate hike on the back burner. We are not looking for any revisions to second quarter GDP (Thursday), with an unchanged 0.3% QoQ print confirming a weak quarter of activity. UK rates have adjusted to a wait-and-see BoE policy approach now and we would need to see higher US rates for GBP/USD to move lower towards 1.26-1.27.

		Week ahead bias	Range next week	1 month target
GBP/USD	Spot ref: 1.2870	Neutral	1.2780-1.2980	1.28

Dollar bloc: Treading cautiously in an ever-changing global risk backdrop

Fluctuating external conditions makes trading the dollar bloc currencies fairly difficult and we wouldn't be surprised if 'a lack of conviction' is currently the default mindset

AUD: Pullback in base metals poses downside risks

- Base metals have been on a winning streak in recent weeks and this has given the AUD a small lift amid what is still a nervous geopolitical backdrop. But our commodities team note prices have deviated way beyond fundamentals, even after acknowledging that these markets are in a deficit environment. We look for a pullback in the near-term, retaining a bearish view on iron ore prices and this poses some downside risks to AUD.
- Broader risk environment will be a key driver for AUD given the absence of any key data releases. Geopolitical calm could be AUD supportive, though we note that the fragile nature of global risk sentiment right now means that it won't take much "bad" news to knock AUD lower. On balance, and given the base metals factor, we retain a mildly bearish view this week.

		Week ahead bias	Range next week	1 month target
AUD/USD	Spot ref: 0.7930	Mildly Bearish	0.7840-0.7990	0.76

NZD: Speculators to think twice about being long kiwi

- NZD/USD bounced back from its Reserve Bank of New Zealand (RBNZ) driven decline as US politics and lower global yields helped to lift the cross higher. July trade data (Wednesday) is the only significant domestic event to watch out for this week. After posting the highest quarterly export growth since 2010 in 2Q17, we look for a slight retrace this month. Risks of a larger trade deficit may weigh on NZD sentiment.
- A quiet external environment could lend support to NZD carry plays, though we do think speculative investors are now likely to think twice about putting on long positions following the RBNZ's latest intervention warning. A neutral bias but look for NZD/USD to run into selling pressure in the 0.7350-0.7400 area.

		Week ahead bias	Range next week	1 month target
NZD/USD	Spot ref: 0.7320	Neutral	0.7220-0.7380	0.71

CAD: NAFTA risks another reason for BoC caution

- Headline July CPI data came in line with expectations but the small uptick in the core inflation readings helped to marginally lift Bank of Canada (BoC) policy expectations. Our economists now see a strong chance of an October hike, although this is largely priced into the CAD.
- The bigger debate is how many BoC hikes we get next year and whether Canadian 2-year yields can move any higher. We remain cautious as NAFTA renegotiation risks - and broader US political uncertainty - could see policymakers tread more cautiously. To offset these, we'd probably need to see another layer of positive macro news and here the focus will be on June retail sales (Tuesday) and trade data (Monday).

		Week ahead bias	Range next week	1 month target
USD/CAD	Spot ref: 1.2580	Neutral	1.2520-1.2720	1.30

EUR crosses: Riksbank waiting for the ECB to show its hand

Scandinavian central banks remain comfortable looking through any positive domestic data as policymakers look to the ECB for guidance over unwinding super loose monetary policy.

CHF: Easing risk aversion may reverse haven flows

- In the absence of any meaningful comments from President Draghi, we expect EUR/CHF to trade around the 1.1300, lacking a reason to move higher. It's worth noting that unlike EUR/USD, the EUR/CHF drop after the ECB minutes was persistent.
- Domestic Swiss data should have a non-existent impact on the franc. Range-bound EUR/USD this week points to a range-bound USD/CHF.

		Week ahead bias	Range next week	1 month target
EUR/CHF	Spot ref: 1.1340	Neutral	1.1200-1.1440	1.17

SEK: Fading impact from the strong Swedish CPI

- We look for EUR/SEK to consolidate around the 9.55 level, with the cross unlikely to break below the 9.50 level.
- This is because last week's Swedish July CPI data only had a one-off impact on SEK, as the Riksbank is likely to look through the surprise upside. So a calm week on the Swedish data front - along with a cautious President Draghi in Jackson Hole - points to very limited moves in EUR/SEK.

		Week ahead bias	Range next week	1 month target
EUR/SEK	Spot ref: 9.5360	Neutral	9.4730-9.6000	1.17

NOK: Don't expect any lasting impact from 2Q GDP

- The 2Q GDP numbers for Norway (Thursday) is the key data point of the week. However, even if we get an upside surprise, any positive impact on NOK should be temporary as it is unlikely to change the Norges Bank's policy stance, given that inflation remains well below target.
- We look for EUR/NOK to trade around the 9.30 level, with the 9.2520 support to hold.

		Week ahead bias	Range next week	1 month target
EUR/NOK	Spot ref: 9.3060	Neutral	9.2520-9.4100	9.30

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