

EUR: Last hurrah from Draghi

A dovish Fed could steepen the yield curve and see the dollar fall a little more broadly, but for today the focus will be on Draghi for any hints over fresh stimulus, and any suggestions over re-starting QE would be a clear EUR negative



➔ USD: Now positioned in the middle of the pack

Since the US-China trade war took a turn for the worse in early May, the Japanese yen followed by the Swiss franc have been the outperformers. Sterling, the Australian and the New Zealand dollar have been the under-performers and the dollar has been in the middle of the G10 pack.

Generally, we would expect this trend to continue into the G20 meeting later this month, where Presidents Trump and President Xi will have an opportunity to de-escalate or escalate the trade war, but before then we have a big Federal Reserve meeting tomorrow. We'll have more on this later today, but we suspect, even though a lot of easing is already priced, a dovish Fed can steepen the yield curve and see the dollar fall a little more broadly. For today, the focus will be Mario Draghi's speech at the ECB forum in Sintra and the dollar consolidating against a generally weaker set of European FX (ex CHF). DXY should struggle to top the 97.65/70 area.

⬇ EUR: Will we see hints of more ECB stimulus today?

At 10 CET today, outgoing ECB President Mario Draghi delivers the introductory speech at the ECB's

annual forum in Sintra, Portugal. In the past, such occasions have been the scene for Draghi to provide strong hints over fresh stimulus and today would seem to be the perfect opportunity to elaborate on the dovish message from the June ECB press conference. Indeed, our team felt the ECB was close to easing policy at that June meeting. Any suggestions over re-starting QE (probably more with corporate bonds now) would be a clear EUR negative and could probably see EUR/USD re-testing the lows of 1.1110/20.

As mentioned yesterday, such a message would also heap pressure on the Swiss national bank and keep EUR/CHF pressured on the view that the central bank might scale back FX intervention as they did in 2015. Because of low Swiss inflation, the real trade-weighted CHF is still nearly 10% softer than it was in the summer of 2015 and the prospect of fresh QE from the ECB will spark speculation that the SNB is prepared to accept EUR/CHF at 1.05.

➔ GBP: EUR/GBP might have gone far enough for the time being

GBP continues to fall, although there may be two reasons why EUR/GBP might have gone far enough for the time being. A dovish Mario Draghi could pull EUR/GBP further lower today, and secondly, signs that the outsider and Remainer Rory Stewart - one of the final six candidates in the race for Conservative party leadership is doing well could very well throw a wild-card into the mix.

But expect the market to ignore any hawkish remarks from the Bank of England's Governor Mark Carney at 16 CET.

⬇ AUD: House price data worrying for AUD

The dovish Reserve Bank of Australia minutes have modestly added to already firm expectations that the RBA will be cutting rates again later this year - 71% probability now attached to a cut at the 6 August meeting.

But perhaps the 1Q19 house price data, falling at 7.4% YoY, is more alarming. AUD to stay soft, especially versus JPY.

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