EUR/USD breaks through 1.20

EUR/USD trades above 1.20 for the first time since early 2015

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EUR lifts all European currencies (ex GBP)

EUR/USD breaks through the psychological 1.20 level, following the upward trend since Chair Yellen's speech at Jackson Hole last week. While some of the recent EUR/USD upside could be explained by the falling UST yields (mainly the 10-year UST, which is down by around 10bp since mid-Friday), still EUR/USD seems to be persistently overshooting short term fundamentals.

For reference, our financial fair value model points to 3% short-term over-valuation of the cross, which is the largest over-valuation since summer 2015. With the US inflation data unlikely to provide a catalyst for a reversal this week (ie, our economists expect August US wage growth to print below consensus expectations and the July US core PCE likely seeing a drop to the year-and-half low) and provided there are no verbal interventions from the ECB officials (just yet), the next key resistance level (beyond 1.2108) to watch is EUR/USD 1.2250.

Beyond the very near term, and given the growing likelihood of the dovish form of the ECB QE tapering (given likely Governing Council concerns about the too strong EUR), we still see a more fundamentally justified (and persistent) EUR/USD upside to be a story of mid-2018 onwards, rather than now (and given the already meaningful rise in EUR/USD observed since the first round of French Presidential elections)

Needless to say, current EUR strength is good news for European currencies (bar GBP) which should continue posting a solid relative performance vs their USD bloc peers (both in the G10 and in the EM space)