

## FX Daily: Dollar looks like the only safe haven in town

Although yesterday's Fed minutes did not provide any more strong hawkish signals, the dollar's role as the ultimate safe haven is continuing to underpin its strong momentum amid more risk instability. Today, the Norges Bank meeting should see a widely-expected announcement of a September rate hike.



### 📈 USD: Staying supported despite not-too-hawkish Fed minutes

Yesterday's [Fed minutes](#) failed to resolve the market uncertainty around the timing for starting tapering, as members appeared split between this fall and early next year. The assessment of how much “progress” has been made by the US economy was not too upbeat – although the meeting was held before the strong July jobs data – with the view that “substantial further progress” was still needed and a widespread concern about a potential slowdown caused by the Delta-variant spread.

All in all, while still signalling the Fed is indeed inching towards tapering, the tone in the minutes was not more hawkish than what was expressed in the post-July-payrolls Fed speak. The initial

negative market reaction in the dollar was probably a sign that some hawkish expectations had not been met, but the greenback was soon back on an upward trend as risk assets remained under pressure into today's Asian session. Indeed, swings in risk sentiment continue to be the most important driver of dollar strength and G10 FX moves in general: after all, still relatively conservative market pricing for Fed tightening (about 45bp expected in the next two years) suggests there isn't much downside for the dollar stemming from any unwinding of rate expectations.

Most crucially, the dollar is more and more emerging as the ultimate safe haven, as it appears investors are strongly preferring the greenback to the likes of JPY and CHF for their defensive market trades at the moment.

Today, we'll see whether jobless claims have continued to slow and whether the Philadelphia Fed Business Outlook index has inched higher in August, but data-driven moves in FX should be limited. We had been highlighting how two levels may have been key benchmarks for gauging whether markets were taking a more decisive bullish dollar view: 1.17 in EUR/USD (which was broken yesterday) and 6.50 in USD/CNY. The ability of the renminbi to survive below 6.5000 this week may be key in averting another leg lower in the Asia FX segment.

### ⬇️ EUR: Still unable to resist USD appreciation

The move in EUR/USD below 1.1700 appeared to be a matter of when rather than if considering the deterioration in global sentiment and the lack of positive idiosyncratic drivers for the euro.

The next key support for the pair should be at the 1.1600 November lows. At this stage, more consolidation in the USD bullish trend could soon see markets look to 1.1500 as a next pivotal level in EUR/USD.

### ➡️ GBP: Showing some tentative resilience

The UK's recently intense data-flow is taking a break today, as markets await retail sales data tomorrow. As we indicated in yesterday's daily note, below-consensus inflation numbers had few implications for the Bank of England policy stance, and the pound has been one of the most resilient currencies to USD appreciation after the inflation report. EUR/GBP could move back below 0.8500 by the end of the week if retail sales offer some help to sterling.

### ➡️ NOK: Norges Bank to signal September hike today

Domestic stories in pro-cyclical currencies are by and large being overshadowed by the deterioration in global risk sentiment, with the above-consensus read in [Australian employment](#) this morning – and its inability to give any real support to AUD – being a case in point. The Norges Bank rate announcement today should not be an exception. Even more so considering that this is an “in between” meeting, where the Bank should release a very short statement, likely indicating they will hike rates in September in line with what has been already signalled in their rate-path projections. This is a very well-telegraphed move, recently endorsed by the rise in Norway inflation to 3.0%. There is indeed a risk (albeit contained, in our view) that the NB will show a more cautious stance (similar to what the [RBNZ did yesterday](#)) on the back of the recent virus wave across the world, and that would likely add pressure to the NOK. But, barring any surprises, the prospect of NB tightening should keep NOK's rate attractiveness supported, although a material stabilisation in risk appetite is now needed for the Krone to benefit from it.

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