

FX Daily: All the eggs in a V-shaped basket

As long as there is enough news to support the V-shaped prognosis, benign conditions look set to continue into Thursday's Jackson Hole speech from Federal Reserve Chair Jerome Powell



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➔ USD: Financial markets remain priced for a V-shaped recovery

Benign conditions reign in global asset markets, where US equities continue to edge to all-time highs, credit spreads are retracing more of their March widening and the dollar remains soft as investors focus on declining US real yields. The fact that rising US inflation expectations (and lower real yields) seem to be moving in lockstep with US equities warns that a correction could become self-reinforcing – i.e. an equity sell-off results in a further tightening of financial conditions via rising real yields. As long as there is enough news to support the V-shaped prognosis, however, benign conditions look set to continue into Thursday's Jackson Hole speech from Fed Chair Powell. For today, look out for the August US consumer confidence figures. Unlike the business sector, consumer confidence has not witnessed much of a V and any sharp drop-off (after suspension of the extra \$600 per week unemployment benefit end July) could prove problematic for risk. Above 93.45, DXY risks 93.90.

⬆️ EUR: German Ifo on tap

Germany has just released a modest revision to 2Q20 GDP (-9.7% QoQ from -10.1%) led by a smaller decline in capital investment. Further insights into the German business sector come from today's August Ifo release, expected to further advance in its impressive V. European equities outperformed the US yesterday and should the Ifo not disappoint (unlike Friday's eurozone PMIs), EUR/USD could get a lift back to the 1.1860/80 area. Elsewhere, now that Chancellor Angela Merkel has called out Moscow on the poisoning of opposition leader, Alexei Navlany, the sanctions threat (especially from Washington) will rear its head again. A further risk premium may well be built into the RUB now.

➡️ GBP: Tight ranges continue

Very tight ranges prevail in EUR/GBP currently. Look out for CBI August retail sales at 12CET – a pick-up could provide GBP with a temporary boost.

⬇️ HUF: NBH will tread carefully for now

The National Bank of Hungary meets today to set monetary policy. No change is expected in the 0.60% base rate, with any further changes (after the 30 basis point cut in July) not likely to come until the September meeting. Our team thinks the NBH will have to acknowledge the weaker economic trajectory, but the release of the September inflation report is a more likely to trigger fresh policy action such as an increase in the pace of quantitative easing as more debt is issued. Hungary's forint has been softening over recent sessions – we think the rise in inflation (core 4%) and negative real rates are weighing. Any suggestion of even looser NBH policy now (unlikely today) would not be taken well by the HUF and were it seen could trigger 355/357 in EUR/HUF.

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