FX Daily: Awaiting more stimulus

Our round up of what we can expect on the currency markets this Tuesday

Dollar enters consolidation mode

Monday's trend in data typically showed an encouraging rise in manufacturing PMIs around the world, including new orders, but still sluggish employment. Normally it would just be a matter of time before employment picked up but in this cycle, the market is fearful of a set-back to employment, particularly in the US. More on this story will be revealed with US ADP and NFP numbers on Wednesday and Friday this week.

Despite this uncertainty, equity markets continue to nudge ahead. In its policy statement overnight, the RBA obliquely seemed to question whether asset markets had risen too far given the high level of economic uncertainty – but certainly, there seems little appetite to burst asset market bubbles right now. Instead, the focus understandably is still about more support for the economy. In the US this issue has now seen the President offer to take executive action to cut payroll taxes given the stand-off in Congress over a Phase IV stimulus plan. Equities liked that initiative and given a particularly light data calendar today, it looks like investors can take a glass-half-full view of the world. 94.00 may have been the corrective high for DXY this week and we expect a sell dollar rally mentality to dominate in tight ranges.

What the ECB can say about EUR strength

The narrow trade-weighted EUR is up around 5% since May, but the broader basket against 38 currencies is up near the 2009 high – on the back of EM weakness. Let's see what the ECB has to say about this, although of course the only channel they can view is through inflation and respond with a threat of even looser monetary policy. We do not sense that the ECB will be the factor that puts a lid on EUR/USD. In the shorter term, positioning looks the more likely reason for EUR/USD topside to prove harder going. Elsewhere, the oil rally is looking a little more fragile as OPEC+ increases supply – a development that could see NOK/SEK dip back under 0.95.

All quiet on the GBP front

EUR/GBP is trading narrow ranges ahead of BoE day on Thursday. It's hard to see what will change this in the short term. Dips below 0.90 to be short-lived.

RBA avoids taking aim at the AUD

In its policy statement overnight, the RBA did not show any great displeasure over the AUD rally. That may be because the rally has been quite gradual, but we also think that central bankers (especially those of US allies) are reluctant to talk their currencies lower with Washington watching. Also of note in the policy statement was the very tight management of the 3-year Australian govt bond yield target of 0.25%. Because these had been trading at 0.28% over recent sessions, the RBA announced it would need to buy more bonds.

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