FX Daily: Bearish dollar conviction levels hold

The fact that the 3.5% sell-off in US equities has hardly caused a ripple in FX markets this morning is very surprising. Some pro-cyclical currencies are still down on a 48-hour basis, but the Asian FX sell-off has been far smaller

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USD: 3.5% US equity sell-off causes barely a ripple in FX markets

What is surprising is the fact that this European morning, the 3.5% sell-off in US equities has hardly caused a ripple in FX markets.

True, some of the pro-cyclical currencies (NOK, SEK, NZD & AUD) are still down 1-1.5% on a 48-hour basis, but the Asian FX sell-off has been far smaller (0.2-0.5%) and Asian equities are starting to deliver some meaningful out-performance.

The fact that the dollar is not a lot stronger probably owes to the fact that: i) the Fed stands ready to provide a lot more stimulus if necessary ii) a fourth stimulus package is expected in January at the latest and iii) the US will be struggling just as much with Covid-19 as Europe.

That Fed back-stop probably helps investors to run with a conviction that the dollar will go lower. Inputs to this equation today include i) what should be a very strong 3Q20 US GDP figure, ii) focus on whether weekly initial claims stay low and iii) Big tech 3Q earnings today – these may well beat expectations, as Samsung did today, but Samsung's shares dipped on a weaker outlook.

DXY missed an opportunity to trade a lot stronger, favour 93.65 to cap.

EUR: A resilient EUR

As Petr Krpata discusses, EUR/USD has been holding up relatively well despite clear signs of a slow-down in Europe.

The strong EUR should be less of a focus at today's press conference and we think EUR/USD can handle strong hints of an extension of PSPP (in December) without the need to sustain a break below 1.1700. If the market gets ahead of itself in looking for more QE at today's meeting and is disappointed, expect EUR/CHF to come under further pressure (e.g. to 1.0650) as peripheral Eurozone debt extends its very recent sell-off.

Elsewhere in Europe, some large falls in CE3 FX mean that consensus expects a 5 basis point rise in Hungary's one-week deposit rate to 0.80% in order to protect the HUF. However, given that PLN/HUF has been relatively stable (i.e. we're not seeing independent HUF weakness), the scope for a hike is perhaps only 50% - leaving HUF a little vulnerable if no change is seen.

Here's our ECB Cribsheet for the meeting today

GBP: Are we in the tunnel?

The lack of Brexit newsflow this week probably means that UK-EU negotiators are already in the tunnel – a good sign for a deal.

With national lockdowns spreading across continental Europe, EUR/GBP could break below 0.90.

JPY: Bank of Japan leaves policy unchanged

Japan's central bank has today left its policy unchanged, while at the same time slightly upgrading its 2021 and 2022 GDP forecasts at the expense of 2021.

Even though at very strong levels versus USD, JPY still looks a good US election hedge

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