

FX Daily: Big figures hold dollar losses in check

The Federal Reserve's Lael Brainard said it's not the central bank's job to deflate asset bubbles, adding to the view that the Fed will keep rates lower for longer and that the dollar will likely be sold on any rallies. For now though, 1.20 in EUR/USD and 105 in USD/JPY are proving to be key support levels



➔ USD: Fed provides more background on its 'FAIT' policy

Last night, the Fed's Brainard provided some more colour on the central bank's new Flexible Average Inflation Targeting (FAIT) policy. One of the side effects she admitted would be increasing risk appetite and a 'reach-for-yield behaviour' as investors priced lower for longer rates. Importantly she emphasised that it wouldn't be the job of monetary policy to deflate any asset bubbles – that would have to come through macro-prudential policy. This all points to a conviction view that the Fed will keep rates lower for longer and with a Fed ready to add more accommodation if necessary, a conviction view is building that the dollar be sold on rallies. For the short term, the dollar has been finding some support at big figures, such as 1.20 in EUR/USD, 0.90 in USD/CHF and always 105 in USD/JPY. A market very short dollars may be prone to some short-term profit-taking, but FAIT is a macro theme that will dominate markets for years (it's up for

review in five years). And we suspect major trading partners will be left to mull measures to slow, not reverse their domestic currency appreciation against the dollar. Expect to hear phrases going forward such as the 'Fed is exporting easing monetary policy through a weaker dollar'. For today, we'll see the August ADP figure. We doubt the dollar enjoys any lasting gains from a strong number and could see the DXY rally stalling in the 92.60/80 area.

➔ EUR: Verbal intervention from Philip Lane?

The EUR/USD correction off 1.20 yesterday was helped by comments from European Central Bank Chief Economist Philip Lane that EUR/USD does matter for monetary policy. Our macro team has given its thoughts on this topic [here](#). Whether this marks the first bout of verbal intervention remains to be seen but does serve as a reminder that the issue of EUR strength will be posed at the 10 September ECB press conference. Thus 1.20 may prove a temporary cap for the EUR. That said, a generally positive set of manufacturing PMIs around the world yesterday is good news for the cyclical EUR and despite extreme long positioning, 1.1850 could prove the limit of the current correction.

➔ GBP: Add a new Scottish referendum to the GBP mix

Cable got close to 1.35 on the weak dollar yesterday, but a broader dollar correction later in the day and remarks suggesting a formal request for a new Scottish referendum have weighed. We think EUR/GBP is too low at 0.8900.

⬇ IDR: Independent weakness

Despite broad demand for the high yielders, the Indonesian rupiah has sold off over 1% on more details on greater government oversight of the central bank and more plans for direct deficit financing. A worrying development that should see IDR underperform further within the high yield space.

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