FX Daily: Brazil intervenes to prop up real but is it enough?

Brazil's central bank stepped in to support the real after USD/BRL rose to an all-time high. We'd like to see more action

USD: Still resilient amid data and trade chatter

The dollar continues to stay supported across the board amid mixed sentiment and low volatility as we look at some days of thinner volumes due to the Thanksgiving holiday. Overnight, President Trump struck an optimistic tone on trade wars, suggesting that the phase one deal with China should be close. While risk assets are still failing to fully cash in on the news, this continues to put pressure on the battered yen, with USD/JPY firmly advancing into the 109 area. In the US, today's highlights will be the second reading of 3Q GDP and Personal Consumption Expenditures (hardly market-moving) and durable goods orders, which are expected to have dropped for the second consecutive month in October, likely impacted by the General Motors strike. Also today, the Federal Reserve will release its Beige Book, which will provide further indications of the trade war impact on the US economic outlook. All in all, the dollar's resilience is likely to remain the key narrative in the markets today as we do not see data releases triggering a correction and the news flow on the trade side is also failing to dent USD momentum. For a detailed discussion of all of our key FX views for 2020, please see our "2020 FX Outlook – Diamonds in the rough" report published earlier today.

EUR: Lacking catalysts

EUR/USD is still lacking clear catalysts and should continue to trade range-bound, slightly above the 1.10 support. Today's speech by ECB's Chief Economist Philip Lane (at 0930 GMT) will attract some market attention but we see low surprise potential, in line with recent ECB communication.

GBP: Tory lead shrinking?

Yesterday's ICM/Reuters poll flagged a marginal narrowing in the Tory lead, which put pressure on sterling. However, we would likely need clearer indications of the Tories losing ground to force GBP outside of its recent (relatively-tight) ranges.

BRL: Testing the BCB's tolerance limits

USD/BRL traded up to a new all-time high yesterday, driven in part by some rebalancing of MSCI equity indices away from Brazil as part of a semi-annual review. The sharp spike in USD/BRL prompted a more aggressive response from Brazil's central bank (BCB) – which conducted a spot auction to sell USD, without the corresponding USD purchases via the FX swaps. Such style of intervention is rare. It may well have been a response to the speed of the Brazilian real's decline, but if BCB does have a problem with the absolute USD/BRL level, i.e. above 4.25, then look out for another USD spot auction today. We like the BRL, but greater interest from the BCB in supporting the currency would be encouraging.

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