

FX Daily: Bright prospects for the euro

The EU summit pushed EUR/USD above the 1.150 level and we see the pair at 1.20 by year-end, largely due to dollar weakness



⬇ USD: US fiscal stimulus delay another short-term blow

A possible delay to the US fiscal stimulus (Republicans reportedly are working on their own version, trying to bypass President Trump's plan to include payroll tax cuts in the stimulus) is another in a series of short-term blows to the US dollar, underlining the difference between the meaningful action from the EU ([the recovery fund and the new budget](#)) and the likely delay in the US. This adds to the difference between the relatively stable Covid-19 situation in Europe and the clear deterioration in the US. While the US fiscal stimulus is likely to be passed eventually, short-term this adds to an uninspiring USD outlook.

➡ EUR: Bright prospects

Despite the initial mild euro reaction, the EU summit outcome eventually pushed EUR/USD above the 1.1500 level. As discussed in [FX implications of the EU Summit](#), we look for limited downside to EUR/USD from here (despite plenty of good news being priced in by now) and see EUR/USD at 1.20 by year-end as further dollar weakness unfolds. With EUR/USD risk/reward skewed to the upside this also favours Scandinavian currencies. We expect EUR/SEK and EUR/NOK to reach 10.00 by year-end (and see NOK/SEK at parity). In contrast, GBP remains the laggard, with the currency weakening overnight as the [Telegraph reported](#) that the UK is close to abandoning a UK and EU

trade deal. We see EUR/GBP at 0.92 this summer as trade negotiation uncertainty weighs on GBP.

📈 CEE FX: Benefiting from the new EU budget

In the emerging markets space, central and eastern European currencies have been among the main beneficiaries of the EU summit and among the top EM performers yesterday, benefiting from (a) the sizable EU recovery fund grants, loans and the EU budget distributions (the EU budget CEE allocation outcomes in particular surprised positively, suggesting more funds for CEE vs the last budget); and (b) rising EUR/USD. Given our year-end 1.20 EUR/USD target, more gains in CEE FX vs USD are expected.

➡ CAD: Finding its way up

USD/CAD is trading below 1.3500 for the first time since early June, largely thanks to broad USD weakness. Today, the Canadian inflation report will tell us whether prices have started to recover in June. While this is worth monitoring as the Bank of Canada pledged to keep rates low until the inflation target is met, the market implications of CPI numbers are still set to be mild at this stage. CAD will remain reliant on global sentiment (although not fully benefiting from it, due to exposure to US lockdowns) and oil prices to stay bid.

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