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FX

FX Daily: Long euro trade is stress-tested

The biggest takeaway from yesterday's sell-off in the euro was that some of this year's highest conviction trades were becoming a little stale. EUR/USD has already had a decent correction even before this week's negative event risks. Expect investors to remain cautious. For today, we'll be focusing on US JOLTS data and some European GDP data



EUR/USD price action remains very poor

↑ USD: Exploring the correction

The DXY dollar index had its best day since early May yesterday. Heavily weighted on the euro, the DXY rally was driven by the euro sell-off, although we did see the dollar rally against most other currencies too. Undertaking a post-mortem on yesterday's price action, it looks as though short-term speculators might have entered long EUR/USD at the wrong levels in early Asia, and a lack of follow-through buying in Europe triggered a broader unwind of euro longs through the day. At the time, EUR/USD was closely tracking the German DAX index, where presumably speculators had been long as well, waiting for the EU trade deal.

Price action does suggest, however, that some of this year's conviction calls are becoming a

little stale. Those conviction calls certainly involve long EUR/USD for many accounts, along with selective positions in Latam and EMEA high-yielding FX. We have been [arguing for some time](#) that EUR/USD could come under pressure this quarter, and arguably, EUR/USD is now in a more fragile position than we had been expecting ahead of a big week for event risk.

Ahead of tomorrow's FOMC meeting, which could also prove [dollar positive](#), today sees the release of US JOLTS job opening data and also July consumer confidence. The former is expected to show some stability (at around the 7500k mark) and the latter is expected to pick up in line with the strong stock market. Let's see how the dollar performs around this data. Let's also keep our eyes on the energy market, where President Trump's shortening of a deadline for Russia to agree a ceasefire marginally increases the risk of secondary sanctions on the foreign buyers of Russian crude – the likes of [China, India and Turkey](#). Any spike in crude on the threat of Russian oil being taken off the global market is probably a dollar positive.

Today, we've also got \$44bn of seven-year US Treasuries being issued. The question of whether the US government can still fund itself at the same borrowing costs has taken a back seat over recent months, and traded volatility levels in the US Treasury market remain exceptionally low. Yet, let's keep watch for this week's Quarterly Funding Announcement (due tomorrow). No fireworks are expected here, but any surprise increase in longer-dated coupon issuance could upset the current benign conditions.

We think the dollar remains at risk of a corrective bounce this week – largely based on positioning. DXY pushing above the 98.80/95 area could open up a fast move to 99.50 and outside risk to 100.50. Certainly, we would recommend caution against trying to re-enter short dollar positions just yet.

Chris Turner

📉 EUR: Not a great deal

This time yesterday, we were all focusing on how the US-EU trade deal would remove uncertainty and allow EU businesses to move on. By the end of the day, investors seemed to have concluded, as did some European leaders, that, net-net, universal tariffs were going to hurt. When the dust settles, the fact that the pharma and semiconductor sectors have been included at the 15% tariff rate (even after trade investigations are released) will probably be seen as a good thing. And Europe will just have to make the best of it – focusing heavily on domestic demand for a change.

For today, we've got the first of the second-quarter GDP releases for the eurozone countries. Spain is expected to have continued growing at 0.6% quarter-on-quarter, while Belgium could be a little softer after 0.4% QoQ growth in the first quarter. Tomorrow is the main event, however, where eurozone growth as a bloc is seen falling to flat QoQ from 0.6% in the first quarter.

EUR/USD price action remains very poor. And if it can't rally above 1.1600/1625 on any good news today, it could well take out support – both at 1.1555 and 1.1500.

Chris Turner

➔ **GBP: Out-sized move in EUR/GBP**

We saw a huge move lower in EUR/GBP yesterday. Ex post, it could be seen as the UK having a better deal than the EU when it comes to trade. In reality, however, it was probably all to do with positioning, where opposing fiscal and monetary prospects between the eurozone and the UK had made long EUR/GBP one of the conviction trades this summer.

That clear-out may have run its course and the fact that GBP/USD has now broken under 1.3370 support suggests sterling can sell off alongside the euro. There is a technical case now for GBP/USD to trade down to the 1.3150 area. That is our preference in a week where we think the event risks are skewed to the positive for the dollar.

Chris Turner

⬇️ **CEE: EU trade deal did not sit well with regional FX**

Yesterday morning's optimism in Europe reverted to a risk-off mood, and along with the EUR collapse, we also saw pressure on the CEE currencies. The weaker EUR exposed the weakness we have been pointing to for some time, with the main focus on EUR/PLN which jumped above 4.265 yesterday, the highest level since mid-July.

As we mentioned here previously, the tightening rate differential has been pointing to levels around 4.280 for some time. Arguably, the summer's low liquidity kept PLN stronger despite weaker economic data, supporting a rather faster National Bank of Poland cutting cycle. On the other hand, yesterday's nudge from the EUR side doesn't mean the gap will close completely and we may see some drift lower in EUR/PLN after the biggest one-day move higher since early June, accompanied by a strong sell-off in Polish equities as well. Whatever the case, we expect EUR/PLN still has room to go higher later. In particular, Thursday's inflation may be another trigger for pressure on PLN.

Elsewhere in the CEE region, the pressure on weaker FX has been milder with EUR/CZK almost unchanged and some correction in HUF gains from previous days. CZK should see support from hawkish Czech National Bank comments this week and any delayed spike in EUR/CZK should be met with decent selling interest.

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