

## FX Daily: Corrective Monday

Data from China and Germany throw into question the V-shaped recovery priced into assets, but trading will likely remain subdued today due to the Labor Day holiday in the US



### 📈 USD: Labor Day holiday to keep trading subdued

Today's US Labor Day holiday should keep FX trading subdued, albeit with a slightly corrective feel. Driving that correction should be a few data points questioning the 'V' priced into asset prices and inflation expectations and include: i) [softer Chinese August import data](#) ii) [softer German July industrial production](#) and iii) [news that Saudi Aramco](#) is cutting the price of Arab Light crude shipments to Asia, presumably on weaker demand. Quiet conditions could see DXY nudge up to the 93.25/45 area, but we doubt there is the appetite to drive DXY much higher from there. As we discuss in the September release of [FX Talking](#), we believe the [Federal Reserve's FAIT strategy](#) and the run-in to very close US elections should limit the dollar's upside and ultimately allow a broader bear trend to accelerate through 2021.

### ➡ EUR: Move to 1.20 did see profit taking

Data released from the CFTC, showing positioning as of Tuesday 1 September, showed that speculators did use the run up to 1.20 as an opportunity to reduce long EUR positions. Indeed, long EUR positions built since the start of July (when EUR/USD was trading 1.12) have been cut back by around 18%. Expect EUR/USD to trade on the soft side going into [Thursday's ECB event risk](#), but

could rally thereafter should it emerge that the central bank is not yet ready to pull the trigger on further easing.

## 📌 GBP: 15 October or bust

Sterling is about 0.5% weaker against the euro overnight after the [FT published portions](#) of a potential UK legislation – the internal market bill – which could undermine the Brexit withdrawal Treaty signed at the start of this year. This bill seeks to address internal trade in the UK – and the border in the Irish sea – should the UK and EU fail to agree on a trade deal by the end of this year. Indeed, Prime Minister Boris Johnson is now publicly taking the position that if a free trade agreement cannot be signed by the European Council meeting on 15 October, then both sides should accept it and move on. We think EUR/GBP can head up to the 0.91 area over the next month but turn lower if a trade agreement is reached. The chances of that happening look slightly lower today.

## 📌 NZD: RBNZ repeats the threat of negative intertest rates

The [Reserve Bank of New Zealand yesterday](#) released a statement to say it was preparing a package of additional easing measures should they be required. These were highlighted as negative rates and direct funding to banks (buying of foreign assets wasn't mentioned here). We suspect the RBNZ will be doing battle with a strong NZD/USD on the back of a soft dollar story, meaning that some of these more aggressive easing measures may have to be rolled out after all.

### Authors

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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