FX Daily: Cruising speed

The signing of a 'phase one' trade deal in Washington, plus perhaps some better Chinese activity data later in the week should keep the dollar bid against the low yielders and gently offered against the activity currencies

USD: Markets settle into glass half full mode

FX market volatility continues to soften after last week's tension in the Middle East, allowing investors to focus on the positives. As we outline in our G10 FX Week Ahead, the highlight here should be Wednesday's signing of the 'phase one' trade deal in Washington, plus perhaps some better Chinese activity data on Friday. This should serve to keep the dollar bid against the low yielders (Japanese yen and euro) and gently offered against the activity currencies. In the US today, the only event of note is a speech on the economic outlook at 16CET from Fed hawk Eric Rosengren. However, as our US economist James Knightley points out, Rosengren has rotated off the FOMC this year, as has Esther George (hawkish) and James Bullard (dovish). These members have been replaced by Thomas Barkin, Raphael Bostic and Mary Daly – generally seen in the middle of the hawk-dove spectrum. Not that it needed it after last year's precautionary 75 basis points of easing, but the 2020 rotation may make the Fed even a little more neutral/dovish. DXY could edge to 97.80.

EUR: Nothing to see here

Very subdued trading continues for EUR/USD. Benign conditions and the euro's new-found status as a funding currency means the euro remains gently offered. Italian regional elections (26 Jan) have the potential to unsettle the Italian government – another reason why the euro doesn't look particularly attractive right now. We see a 1.1065-1.1180 range for EUR/USD this week.

GBP: BoE pulls the rug from sterling

Dovish commentary from the Bank of England at the end of last week has weighed on sterling. As our team highlighted in its reaction piece, jobs data will be the key driver of whether the BoE pulls the trigger at the May policy meeting. In that piece, we highlighted that an independent BoE easing cycle of 50 basis points could knock anywhere between two and seven big figures off cable – depending on whether historical relationships re-assert themselves. Cable risks 1.2970 early week.

CAD: BoC Business Outlook Survey in focus

A rebound in December employment data gave the Canadian dollar a modest lift on Friday and the focus today shifts to the Bank of Canada's Winter Business Outlook Survey. These surveys provide quarterly readings on sales, investment, employment and inflation prospects. This will be an important input ahead of the BoC's 22 January policy meeting, where a Monetary Policy Report is also released. Currently the market prices just a 5% chance of the BoC cutting the 1.75% policy rate in January and does not fully price in even one full 25bp cut this year. The survey can, however, shape market expectations and any unexpected softness could push USD/CAD to the 1.3100 area.

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