FX Daily: Data back to clipping the dollar's wings

US services data today could re-ignite recession fears and boost the odds of another Fed rate cut

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USD: Service sector concerns to linger

A very negative start to the week for US Treasuries (with rates jumping on optimistic trade deal comments) has allowed the dollar to stage solid gains vs G10 currencies. Today, the greenback may run out of luck: the ISM manufacturing index rebounded less than expected on Friday and our economists see the risk of a similar disappointment in the non-manufacturing gauge today. The notion that the slump in American manufacturing may be spreading to the service sector has been a major fuel of recession fears and may undermine the market's conviction that the Fed will stay put in December (currently, only 11% implied probability of a cut). All this translates into some non-negligible risk of a downside correction in the dollar today.

EUR: A break above 1.12 still looks complicated

EUR/USD may benefit from a weaker dollar environment, but likely lacks some euro-specific catalyst to overcome the strong resistance forming around the 1.12 level (the 200-day moving average is at 1.1194). The 0900 AM (GMT) speech by the ECB's François Villeroy is unlikely to be a market mover and will probably be in line with the very cautious approach shown by President Christine Lagarde (who didn't touch upon monetary policy) in her first official speech yesterday. Meanwhile, the Danish central bank restarted FX interventions to support the weakening krone. It seems fair to assume this will continue to be the Bank's preferred channel to support its euro-pegged currency but a rate hike in the future is not totally off the cards.

GBP: Hit by transition period uncertainty

While the electoral campaign kicks off and markets seem quite comfortably positioned for a Conservative win, the pound has come under renewed pressure as Prime Minister Boris Johnson is appearing reluctant to extend the Brexit transition period. This carries along a number of concerns on the potential economic damage of a "rushed" exit from the EU, as UK business may not have enough time to gear up for the change in rules. After another correction, net speculative positions on sterling are unlikely to provide much more support to GBP rallies, and the uncertainty around the transition period seems enough of a negative driver to keep the currency on the backfoot while more clarity is sought.

NZD: Good labour data much needed

A report that US officials are considering lifting tariffs on $112 billion of Chinese goods paired with some positive spillover effect from a slight tilt by the Reserve Bank of Australia could fuel a rebound in the New Zealand dollar. The kiwi dollar remains the biggest speculative short in G10 (net positioning at -56% of open interest), which suggests additional upside room in the short-term if more RBNZ easing is priced out. For this to happen, some positive surprise from tonight's Q3 labour data will likely be needed.

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