

## FX Daily: Dollar bear trend extends

While there are clouds on the horizon, they should not be enough to derail the generally positive risk environment, which is keeping the dollar under pressure



Source: Shutterstock

### ➔ USD: Flows back into risk assets leave dollar pressured

The new week starts with a generally positive backdrop. Asian November PMIs were mostly encouraging, pointing to a 'V'- rather than 'W'- shaped recovery for the region, while the vaccine news sounds promising – the UK could be the first Western country to approve the Pfizer vaccine (this week). Some clouds on the horizon do exist such as accelerating US Covid cases, whether OPEC+ will extend supply curbs (crude is off 2%) and Washington broadening its ban on Chinese companies with alleged military links. Those clouds should not be enough to derail a generally positive risk environment, which has seen around \$36 billion worth of portfolio flows returning to emerging markets over the last month – largely at the expense of the dollar. Unless we see some dramatic lockdowns across the US in December, broad enough to trigger an equity correction, our bias is that the dollar stays pressured. DXY last week broke out of a three-month trading range to the downside and we favour it continuing to drift lower. Please see our [G10 FX Week Ahead](#) for more details on this week's key events.

## ➔ EUR: Which way will month end re-balancing go?

It is the end of the month, which normally means some large buy-side portfolio rebalancing flows around the 1600GMT WMR fix. Rebalancing means for example if equities have outperformed bonds over the month, one might sell equities and buy bonds to rebalance portfolios to benchmark weights. And the same thing applies geographically, e.g. if European equities have outperformed US equities, which they have this month (Euros Stoxx +19%, S&P 500 +11%), then one might sell European equities (and the euro) at the 1600GMT fixing to rebalance portfolios. We have seen some other reports suggesting the contrary – i.e. that the dollar is sold at today's fix – so let's see. 1.2000/2010 may be a tough nut to crack in EUR/USD ahead of the 10 December European Central Bank meeting.

## ⬆ GBP: Deal seems close

Reports suggest a Brexit deal may be closer, where the thorny issue of fishing gets resolved with a transition period. If announced this week, that might be enough to send EUR/GBP back to 0.8860, while sending cable to big resistance at 1.3500 in a soft dollar environment. News that the UK might be the first country to approve and roll out a vaccine might help GBP too.

## ⬇ ILS: Bank of Israel may be concerned with strong shekel

We don't write about the shekel too much on these pages, but it is normally a top performer in a broad dollar bear trend – backed by a strong balance of payments position and now some weightings in global emerging market debt and equity benchmarks. The Bank of Israel may express concern about recent ILS strength at its meeting today, but expect any bounce in \$/ILS to meet good sellers ahead of our forecast move to 3.20 next year.

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