

## FX Daily: The dollar bear trend remains intact

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Federal Reserve  
Chairman Jerome  
Powell

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### ➔ USD: FOMC causes barely a ripple in USD rates markets

The dollar is around 0.6/0.8% firmer after the Fed meeting last night, but the move looks to be a function of positioning or misplaced market expectations rather than anything to be taken from the statement or projections.

[As we discuss in our Fed reaction piece](#), the main move in the US yield curve was at the long end and right now 30-year treasury yields are only up 2 basis points post Fed. Equally looking at the 1-month tenor in the USD OIS curve, these have not budged all the way out to the five year forward.

As long as market expectations of an economic rebound hold (second wave lockdowns and the fiscal response will have a say here), we'd say that negative real yields will keep the dollar bear trend intact and investors will use position adjustments (like today) to reset dollar short positions.

We'd expect the DXY rally to stall before 93.65/94.00.

[Our Fed reaction piece](#)

## ➔ EUR: Looking for 1.1700 to hold

Stretched positioning can always create risks for FX pairs and certainly, that is the case in EUR/USD right now. Yet EUR/USD has rallied for good reason this summer and we think 1.1700 should prove the lower end of the near-term trading range.

Elsewhere, the energy currencies like NOK will be keeping an eye on the OPEC+ meeting. No fresh cuts are expected, but Brent seems supported.

## ⬇ GBP: Neither BoE nor deal with Tory rebels are reasons to cheer

GBP rallied late yesterday seemingly on news that the prime minister Boris Johnson had agreed to a deal with Tory rebels, giving parliament a veto over some measures of the Internal Market bill before implementation. Softening the impact of this bill may be seen as welcome, although it seems doubtful the EU will see it that way – maintaining a threat of legal action should the bill not be rescinded by end month.

Thus, we think recent GBP gains may well be reversed. GBP may also face headwinds from today's BoE meeting where renewed caution may provide hints to more stimulus in November – more likely QE than negative rates.

Favour support at 0.9080 to hold and EUR/GBP to reverse to 0.92.

## ➔ ZAR: Benign conditions should allow SARB to cut 25bp today

A 51% quarter-on-quarter contraction in 2Q20 GDP, inflation at the lower end of the 3-6% target range and a strong Rand suggests the SARB will side with the slim majority of forecasters looking for a 25bp rate cut to 3.25% today. That will bring real interest rates roughly down to zero but given abundant dollar liquidity and the re-rating underway of China currently (ZAR has one of the highest EM correlations with the CNH), any rallies in \$/ZAR probably get sold.

We are not big fans of the ZAR given the debt sustainability challenges ahead but for the short term, we would have to respect any close below 16.30/35 support.

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