

FX Daily: The dollar bear trend remains intact

As long as market expectations of an economic rebound hold, we'd say negative real yields will keep the dollar bear trend intact and investors will use position adjustments (like today) to reset dollar short positions



Federal Reserve
Chairman Jerome
Powell

Source: Shutterstock

➔ 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although it seems doubtful the EU will see it that way – maintaining a threat of legal action should the bill not be rescinded by end month.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.

Author

Chris Turner

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

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.