FX Daily: US dollar index to hit 100

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USD: Bull trend unlikely to reverse

Global risk sentiment keeps oscillating as markets weigh the latest developments on the coronavirus (rising fears of it spreading outside China despite the number of cases slowing), and the dollar remains the absolute winner. Equities continue to show impressive resilience, which has contributed to the drop in the yen. Once again, this is not corresponding to any rebound in pro-cyclical currencies, which instead have been the key underperformers overnight. It really seems like the dollar is the only game in town at the moment, and we do not see a catalyst for an inversion in the bull trend before the end of this week. With PMIs in the eurozone and UK tomorrow posing more downside risks to the euro and pound, the yen unlikely to be helped by CPI numbers tonight and commodity currencies still pressured, DXY looks set to hit the 100 mark before the weekend.

EUR: Outdated ECB minutes to give no help

Despite showing some resilience to the strong dollar yesterday, we still think the EUR/USD is more likely to head lower than rebound in the next few days. While we expect tomorrow's PMIs to put additional pressure on the pair, we think today's ECB minutes may have a muted impact. The release will cover the 23 January meeting, when the coronavirus had yet to emerge as a significant downside factor to the eurozone economy, and before the disappointing growth numbers. In turn, most attention will be on details around the strategy review but, given the length of the process (President Christine Lagarde anticipated it should last until year-end), markets may not be particularly prone to jump to conclusions regarding monetary policy implications just yet.

GBP: Selling pressure on cable to persist

Strong inflation numbers yesterday pushed GBP/USD to levels that were likely seen as attractive to enter short positions on the pair. We would not be surprised to see this "sell-the-rally" approach by the markets continue as the uncertainty related to the UK-EU trade negotiations warrants a weaker GBP, in our view. Today, UK retail sales for January will be closely watched: the gauge has been quite fragile of late and markets expect a rebound, but we still think it is early to deduce any post-election bounce in activity. Even if retail sales surprise on the upside, we may see (like yesterday) GBP/USD gains fade quickly.

AUD: Mixed labour data warrants RBA rethink

The Australian labour data showed a rebound in the unemployment rate to 5.3%, although some good news came from a recovery in full-time hiring. We think this will likely put some pressure on the Reserve Bank of Australia to re-enter its easing cycle soon and the Aussie dollar is set to be a key underperformer in coming months.

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