FX Daily: Equity resilience adding to dollar bearishness

Stocks at record hights dampen haven demand. Here's how that could affect FX markets this Thursday

USD: Broad weakness

The good performance of equities in spite of the stalemate in US relief package negotiations, virus data continuing to raise second wave concerns and a fragile geopolitical environment is likely to be the story of the week in global markets. The S&P500 briefly touched record highs yesterday, confirming the ability of equities to quickly shrug off negative drivers to sentiment. This remains a key point in favour of the USD bearish argument. The greenback today is indeed showing weakness across the board as Japanese equities are following yesterday's US gains and providing support to global sentiment.

The economic calendar will not offer catalysts today apart from the weekly jobless claims report. Initial claims are expected to nudge lower from 1,186k to 1,100k, according to consensus. The coincidental end of the US$600/week Fed payment may have discouraged fresh filings and this could favour a lower figure. Still, US politics is likely to remain at the centre of investors' radars heading to the weekend: while the announcement of Kamala Harris as Joe Biden's running mate has shifted some attention from US stimulus negotiations, the latter remains a key sticking point to endorse market reflation hopes.

Despite Secretary Mnuchin reportedly reaching out to Democrat Speaker Pelosi yesterday to take some steps towards resolving the standoff, the two parts still appear very far apart and a breakthrough is hardly imminent. The question now is whether this will be enough to prompt a slowdown/correction in the stock rally. Latest evidence suggests investors may turn a blind eye to the matter, and the balance of risks remains tilted to the downside for the USD today as well.

EUR: Trade tensions could curb gains

EUR/USD is back above the 1.1800 handle but remains largely driven by the USD leg. The EUR may, however, lag its G10 peers should US-EU trade tensions heat up again after the USTR added tariffs to some French and German products amid the long-running dispute regarding EU countries' subsidies to Airbus

GBP: Consolidation gains

Cable should continue consolidating above 1.3000 in the absence of data/key events in the UK today. Investors are awaiting the next chapter in the EU-UK trade negotiations, which appear the true driver of sterling after growth data failed to particularly shake GBP off its recent relatively tight ranges.

AUD: Good jobs data, but lingering concerns for the future

The jobs report in Australia out overnight was full of encouraging news, as headline employment rose by an above-consensus 114.7k and full-time hiring showed fresh signs of life (the June jump in jobs was only driven by part-time hiring). Still, unemployment inched higher on the back of a higher participation rate.

As our economist Rob Carnell highlights in his note, June and July job increases may be seen as "easy gains" after the re-opening, but fresh lockdown measures and an economy still operating at a lower speed will make further gains in jobs figures less likely in the coming months. We continue to see AUD as more exposed than others to any risk-off correction, but the good risk environment may add steam to a AUD/USD rally towards 0.7200 today.

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