

FX Daily: Equity resilience puts a cap on the dollar

Global equities have proven quite resilient to disappointing news on Johnson & Johnson's Covid vaccine, suggesting the dollar could soon be back to feeling some selling pressure



Source: Shutterstock

⬇️ USD: Upbeat mood to generate new selling pressure

Risk appetite faced a minor setback overnight on the news that Johnson & Johnson is pausing its Covid-19 vaccine trial, but global equities (led by yesterday's US tech rally) are proving quite resilient. Overall, markets may still be inclined to look at the glass half full as they retain some hope around US fiscal stimulus and Joe Biden's consolidated lead in the polls which lowers the perceived risk of a contested election. Data out of the US today should not get in the way of more gains for risk assets. We think headline and core inflation for September at 0.2% (in line with consensus) is unlikely to generate a significant market reaction, while the NFIB Small Business Optimism index may inch higher. The resilience of global equities indicates that the dollar could soon be back to feeling some selling pressure, with DXY possibly breaking below 93.00 and retesting 1M lows at 92.78 in the coming days.

⬆️ EUR: ZEW – mild rebound, still grim

The German ZEW index will be the key data to watch today in the eurozone and our economists are expecting a mild rebound to -55 (from -66). Such a deeply negative reading is unlikely to generate any expectations about better recovery hopes and EUR/USD may well have to rely on supported global sentiment to consolidate above 1.1800. It is worth monitoring any incoming news on the European Central Bank discussions around possible inflation overshooting, following some reports that some policymakers may oppose the idea. In the rest of Europe, Swedish inflation should decline modestly, but this shouldn't impact the Riksbank's policy mix and could actually be a positive for the krona as it improves the SEK real rate.

⬆️ GBP: Unreactive to anything but Brexit

The UK government announced stricter containment measures in some areas of the country and top health officials are already suggesting more will likely be needed. This is not good news for the battered UK economy but with Brexit negotiations at a critical phase, hardly anything else looks likely to impact GBP (the lack of reaction to labour data and comments about negative interest rates being a case in point).

➡️ AUD: Sino-Australian trade tensions rise dangerously

The Australian dollar is the key laggard in G10 at the start of this week due to reports that China has banned its power stations from purchasing Australian coal. This marks another step in rising tensions between China and Australia after the latter asked for a probe into China's handling of the Covid-19 outbreak back in April. Should tensions fail to de-escalate, markets may start pricing in more protectionist measures from China, and with the risk of iron ore (AU's main export) also being targeted, AUD may struggle to keep the pace of other pro-cyclicals.

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