FX Daily: Is the EUR becoming a 'growing concern' for the ECB?

It now seems clear that the strong EUR has firmly landed on the ECB's radar suggesting we'll see a period of FX consolidation ahead of next week's ECB meeting

USD: The US currency, everyone else's problem

The trade-weighted dollar has bounced around 1% off its lows this week. The move looks corrective and a big driver of that has been the two-cent sell-off in EUR/USD.

Following today's sourced article in the FT, it now seems clear that the strong EUR has firmly landed on the ECB's radar. This suggests we'll see a period of FX consolidation ahead of next week's ECB meeting. However, news that a major trading partner of the US is having to deal with a stronger currency should not prove too much of a challenge to the over-riding dollar bear trend. After all, one of the side-effects of the weaker dollar is to export loose Fed policy around the world – effectively providing more global monetary stimulus.

This should support global trade volumes and as the ECB's Schnabel noted earlier in the week, the boost to global trade from a weaker dollar could offset some of the drag to eurozone exports from a stronger EUR. The trigger for a much bigger correction in FX markets probably comes from any event/data release that undermines V shape expectations of recovery – and a looser ECB policy is not such a trigger.

For today, we'll see US ISM services, seen to remain in healthy territory. DXY can briefly extend to 93.50/70 but should meet sellers.

EUR: Correction could extend to 1.1750

EUR/USD has corrected a little further than we expected yesterday and could drop to the 1.1750 area. But overall, we'd expect some central bank resistance to local currency strength against the dollar to provide only a temporary cap to the EUR/USD.

And these types of verbal interventions will become more common as the dollar sinks further in 2021. Elsewhere in Europe, CE4 FX are handing back some gains on the weaker EUR/USD. We like USD/CZK lower over the medium term & believe technical resistance at 22.35/50 may hold the rally.

GBP: Brexit brinkmanship won't help GBP

EUR/GBP is pressing support at 0.8865, helped by the slightly softer EUR. Our preference is that this support level holds before fresh rounds of Brexit brinkmanship from both sides weighs on GBP over coming weeks.

We're moving into crunch time for post-EU trade negotiations and neither side appear willing to concede ground just yet.

We prefer a move back above 0.90.

RUB: Novichok

News from Germany yesterday that Russian opposition leader Navalny has been poisoned with Novichok hit the RUB hard. Talk of fresh sanctions will inevitably emerge, especially from the Russia hawks in the US.

Let's see whether Germany continues to keep the completion of Nordstream II off the table when it comes to political action. USD/RUB can easily trade to 77.20/77.70

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com