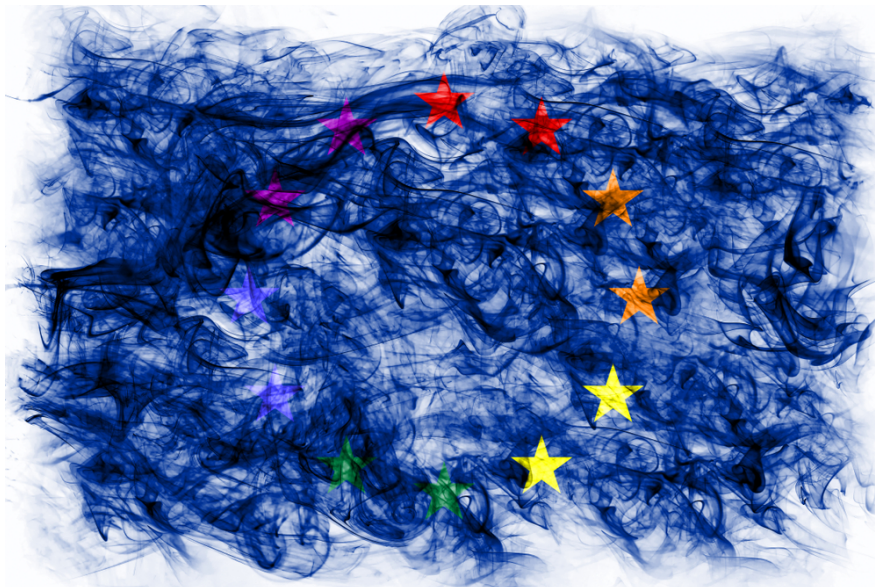


## FX Daily: European headwinds offering some help to USD

We remain of the view that the general direction of travel for global markets is warranting a weaker USD across the board, but uncertainty around Brexit and threats to the EU economic-recovery package may keep risk-assets in check heading into the weekend



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### USD: Some respite on European headwinds

Evidence of further spikes in infections globally and fresh restrictions imposed (New York closed schools yesterday) are putting a limit to another widespread risk-on rally on the back of more encouraging vaccine-related news. The trade-weighted dollar is enjoying a mild rebound, although some pro-cyclical currencies – led by NOK – have remained broadly supported.

Today, the US calendar includes housing data, the Philly Fed Index and initial jobless claims, all of which may, however, have a limited market impact as investors remain focussed on virus-related factors and developments across the ocean - Brexit and threats to the EU economic-recovery package, which we discuss below.

We remain of the view that the general direction of travel for global markets is warranting a

weaker USD across the board, but uncertainty around these two factors may keep risk-assets in check heading into the weekend and put a floor below USD for now.

## 📉 EUR: Battle on the rule of law continues

EU leaders are set to hold a virtual call today to re-discuss its pandemic-relief package (under the EU seven-year budget and the Recovery fund) after Hungary and Poland threatened to veto the package. The key point of conflict is once again the rule of law which puts some conditionality to the funds based on some democratic standards.

We see no major breakthrough on the matter at today's virtual-meeting and more negotiations may well be required, with uncertainty that could still weigh on the EUR and support CHF thanks to its highly negative beta to EU sentiment.

In the CEE space, PLN and HUF may still face short-term pressure and underperform CZK until a deal is reached, which remains our base-case scenario.

## ➡ GBP: Waiting for a signal

Reports that the UK and Canada are very close to reaching a post-Brexit trade deal is undoubtedly good news for both economies, but with time dangerously running out on an EU-UK trade deal, sterling is struggling to react positively to the news.

Some EU countries have reportedly urged the European Commission to report its no-deal Brexit plans, which are adding some doubts about the effective state of any advances in the negotiations. These days will be crucial for Brexit, and we might expect a large move in GBP at any time now.

## ➡ AUD: Good jobs data make more RBA easing even less likely

Australia's jobs data for October saw a surprise increase in employment by 179k vs -27k consensus. This is another factor highlighting a less-pronounced economic slump in Australia than in other developed countries and - considering the RBA's particular focus on jobs dynamics - it further suggests the Bank's easing has likely peaked, in our view.

### Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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