FX Daily: Executive over-ride

US data this week could extend the economic recovery narrative, however, this comes at a time when US virus cases have surpassed five million and the Fed continues to call for more economic support. US-China political tension adds another layer to the story, so we expect DXY to remain capped at 93.80/94.00 this week.

USD: The President goes it alone with stimulus

On Saturday President Trump signed four executive orders designed to cut through the Congressional delay in extending economic stimulus. Neither Congress nor State governors will like what the President has done.

At present Dow futures, currently, +125pts, seem to like the news, though over time the pressure will grow for new money from Congress instead of the President deciding how existing packages can be spent. As we discuss in the G10 FX Week Ahead, US data this week could extend the economic recovery narrative, culminating in a better-than-expected July retail sales figure on Friday. However, this comes at a time when US virus cases surpass five million and the Fed continues to call for more economic support.

In all, this feeds into the story of the Fed being prepared to do more to support the recovery including a policy of driving real yields lower – a dollar negative. US-China political tension adds another layer to the story. DXY should be capped at 93.80/94.00 this week.

EUR: EUR/USD may gravitate to 1.1800

EUR/USD is consolidating in a 1.17-1.19 trading range and may gravitate to the 1.1800 area for a large options expiry at 16 CET today. Net speculative long EUR positioning continues to grow to extreme levels portraying a conviction view that the recent EUR/USD rally constitutes the start of a new, major bull trend.

We certainly back a stronger EUR/USD into November – and Fed policy looks set to weigh heavily on the dollar – although we think the result of the election will have a major impact on the dollar trend for 2021. The Eurozone data calendar looks unlikely to have too much bearing on EUR/UD this week.

GBP: Gearing up for Tuesday's employment

GBP could not hold on to last Thursday's Bank of England-inspired gains and instead is consolidating ahead of key employment data released tomorrow. Many private surveys are warning of the spike in unemployment as employers are asked to carry more of the burden for their employees and consensus expects a rise in the June unemployment rate from 3.9% to 4.2%.

Speculators are still short GBP and while a short squeeze is still possible, we prefer not to chase the story of upside surprises in UK activity nor a stronger GBP.

TRY: Central bank raises effective cost of funding

The Turkish lira found some stability on Friday after the central bank directed banks away from the one-week TRY repo rate (8.25%) towards borrowing at the lending rate (9.75%), increasing the banks effective cost of funding.

Increasing funding costs is a shift in strategy for the central bank and suggests traders will now be closely following CBT money market operations.

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