

FX Daily: FOMC will not rock the boat for risk assets

With markets functioning well and long-term yields very low, the Federal Reserve is unlikely to take any concrete action later today. But uncertainty over Covid-19 and the next US fiscal stimulus package suggest the central bank will retain its cautious language. Here's what that means for FX



Source: Shutterstock

📌 USD: FOMC will not rock the boat for risk assets

We expect the Fed to keep its cautious bias in place today given the ongoing Covid-19 uncertainties and negotiations on a new US fiscal stimulus package. These factors suggest there is little reason for the Fed to sound more upbeat, while the orderly functioning of markets and suppressed long-dated yields also suggest there is little reason to turn even more dovish at today's meeting. As per our [FOMC Preview](#), our economists expect the committee to keep the Fed funds target rate unchanged at 0-0.25%, leave its QE stance in place and maintain its ongoing forward guidance that the central bank is committed to keeping rates close to zero until it is confident that the US economy weathers the Covid-19 crisis. Such a cautious message should not rock the boat for risk assets, keeping the broad-based soft USD bias in place and helping to facilitate a further fall

in the trade-weighted dollar in the remainder of the year, with US presidential election risk premia still to be priced into the dollar.

➔ EUR: Stretched EUR/USD to stay around the 1.1700 level

The expected cautious message from the FOMC should keep EUR/USD hovering around the 1.1700 level today and very likely for the rest of the week as such an outcome is largely expected by markets while plenty of euro-specific good news already seems to be priced into the currency. Indeed, based on our short-term financial fair value model, EUR/USD screens as expensive following its rally over the past week. The stretched short-term valuation in turn points to stability in / lack of meaningful upside to EUR/USD in the near term.

⬇ GBP: Limited upside potential

EUR/GBP is back below the 0.9100 level but we see the cross's downside potential as limited as the UK-EU trade negotiation uncertainty continues to weigh on GBP. With EUR/USD upside likely to stall for now, so should the GBP/USD upside, with the latter remaining below the psychological 1.3000 level.

➔ SEK: Domestic data to continue playing second fiddle

In Sweden, the focus today is on the July Economic Tendency Survey. In normal times, this is an important indicator for the local economy and a factor for the Swedish krona's direction, but in current times of Covid-19 uncertainty, its effect on SEK should be fairly limited with the direction of global sentiment being the key for the krona price action. The cautious FOMC suggests limited upside potential to EUR/SEK, with the pair not moving meaningfully above the 10.30 level.

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.