

FX Daily: Has the gridlock rally got legs?

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📌 USD: FOMO drives the rally

It has been an impressive week for risk assets, with almost every asset class having enjoyed strong gains. Whether it has been equities, debt, commodities or crypto (+12% on the week) it seems investors feel they know enough about the US presidential election to put investments to work out along the credit curve. It may well be that results are known from Pennsylvania later today, such that Joe Biden could declare himself the winner, while voting in the other remaining key states may drift into the weekend or even next week.

So far investors have been prepared to overlook the threat of a contested election, presumably seeing Donald Trump's legal initiatives as 'frivolous' and these benign conditions have generated a broad-based dollar decline.

The fact that USD/JPY (which never moves) is trading at 103.50, tells us that there is a broader dollar move afoot than a mere risk rally. As our strategy team discuss here, [we think](#) these conditions lead to a further dollar decline. Yet timing is everything. Add to dollar short positions

today - or be wary of broadening lockdowns coming to the US in December or even a legal challenge from Trump that resonates?

The dollar sell-off may have a little more mileage today if a) Biden formally secures 270 votes or b) a softer than expected October payrolls suggest that the Fed will have to throw more liquidity at the market.

📈 EUR: Progress on the EU Recovery fund

Away from the broad dollar bear trend lifting EUR/USD, the EUR also got some good news yesterday from EU negotiators reaching agreement on how rule of law conditionalities would be included in the forthcoming EU recovery fund. This is an important milestone on the road to releasing a EUR1.8trn rescue package – sorely needed by Europe as it moves into lockdown 2.0.

Expect EUR/\$ to stay supported and if USD/CHF breaks a huge support level at 0.9000, EUR/\$ could get a sharp intra-day lift. 1.1860/80 is short term resistance

➡ GBP: BoE moves have little impact

EUR/GBP is trading in narrow ranges around 0.90 and despite negotiators warning of little progress in Brexit talks yesterday, the suspicion is that a deal will still be done.

Above 1.3175, Cable can push onto 1.3270.

📉 PLN: Polish MPC likely to ease policy today

In a meeting delayed by two days, the Polish central bank is expected to ease policy today. A rate cut is possible (reference rate -10bp to 0.00%) and taking the deposit rate into negative territory could hit the PLN – a desirable outcome for the MPC.

This stands in contrast to developments at the Czech national bank yesterday

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