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FX

FX Daily: It is hard to trust the USD rebound

The Fed meeting last night reinforced a key medium-term bearish argument for the dollar. But all eyes now on US GDP data, out later today, and we're expecting a 36.5% QoQ contraction



Source: Shutterstock

➔ USD: The respite looks temporary

The [FOMC statement yesterday lacked surprises](#). For markets, the key takeaway is still that the Federal Reserve stands ready to maintain its extra-loose monetary stance for as long as necessary and so – in an FX perspective – reinforcing a key medium-term bearish argument for the dollar. USD is finding some respite in the Asian session ahead of US GDP figures later in the day, where investors will weigh the magnitude of the US economic slump in 2Q.

The consensus is already centred around a very grim 34.5% QoQ contraction (we expect -36.5%) and the impact on markets might be relatively short-lived given the backwards-looking nature of the reading. Talks around the US relief package should be of more of interest for investors at this stage.

The dollar may be looking at some stabilisation as risk assets stay capped for now, but with the other two safe havens (JPY and CHF) looking more attractive for a defensive stance as virus

cases keep surging, USD recovery prospects still look tenuous.

➔ **EUR: Data shouldn't hurt momentum**

A slew of data out of the Eurozone today (Economic confidence, ECB economic bulletin, German inflation) should not be able to dent the fairly solid momentum around European assets after the EU Recovery fund set fresh hopes for economic recovery and virus spread in Europe remains less worrying than in the US and other global hotspots.

EUR/USD's break above 1.1800 could be a matter of when rather than if, although most of the thrust for a rally should still be provided by structural USD weakness (the Fed confirmed it won't stand of the way in this sense) rather than EUR idiosyncratic factors.

↓ **GBP: Still more stress to be built**

Cable failed to break the 1.3000 level as the pair appears mostly driven by USD dynamics for the time being, while GBP investors remain in a cautious wait-and-see approach as UK-EU trade negotiations (the key driver of the currency) appear at a standstill.

Looking at EUR/GBP, the pair does not appear overly stretched and more potential GBP stress as post-Brexit uncertainty rises points at further upside potential, in our view.

↑ **CHF: Good momentum may linger**

USD/CHF has moved to 5-year lows yesterday and may be set to touch 0.9000 in the near future. CHF has played some catch-up with the yen as both currencies continue to emerge as a more attractive alternative to the USD as defensive bets in G10.

With the possibility of grim US economic and pandemic prospects starting to weigh on USD now, both CHF and JPY may be looking at more gains vs the greenback.

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