FX Daily: Making hay while the dollar consolidates

The dollar is in consolidation mode ahead of tomorrow evening's release of the FOMC minutes. While the dollar is in consolidation mode, local stories can win through - as we are seeing in the commodity FX complex today. This environment could well extend through 2H21

USD: Dollar stays gently offered as markets focus elsewhere

The dollar has started the week on a gently offered tone as investors look at recovery stories outside of the US and also at the temporary breakdown in OPEC+ negotiations. Focus remains more on recovery stories than the risks of the Delta variant sucking the world economy back into stagnation. Some stability in south-east Asian currencies this week bears testament to the latter point.

Instead, the last 24 hours have seen the focus very much on the commodity complex, where both New Zealand and Canada have seen strong quarterly business outlook surveys. These have supported market pricing for early Reserve Bank of New Zealand and Bank of Canada tightening and seen respective currencies gain ground against the dollar. We have also seen a marginally more upbeat Reserve Bank of Australia meeting overnight, where a subtle shift in its QE programme - spelling out a three month, not six month next batch of QE - suggests the RBA too could be edging away from emergency monetary policy.

With the dollar in consolidation mode ahead of tomorrow evening's FOMC minutes and emerging market currencies showing a little more stability, DXY could edge a little lower today - perhaps to the 92.00 area. And depending on how the dollar copes with the bullish event risk of those FOMC minutes tomorrow, this period of DXY consolidation could extend further through the summer and continue to allow local recovery stories to win through elsewhere in the world.

EUR: Volatility sinks lower again

At the time of the 16 June FOMC meeting, we had speculated whether the hawkish Fed would be enough to keep EUR/USD implied volatility levels bid after all - using 6.00% on the one-year EUR/USD as a benchmark. The clear answer has been 'no'. Lower volatility and the search for carry is also the clear message coming from the bond markets currently and points to a summer range-trading for USD/Majors - unless strong local stories can win through.

There does not seem much on the eurozone calendar today to spark a positive re-assessment of the euro - although a big bounce in May retail sales could provide the EUR with some support. EUR/USD could nudge back to the 1.1910 area today - but we would not get carried away.

Elsewhere, we see money market rates, e.g. the 6X9 FRA continuing to edge higher in Hungary on a hawkish central bank, yet EUR/HUF remains rangebound. We remain positive on the forint, but will remain watchful of local developments outside of central bank policy.

GBP: Enjoying its new found freedom

GBP is enjoying some outperformance. This may be linked to Prime Minister Boris Johnson's speech last night about fully reopening the economy and learning to live with Covid-19. Yet this link looks very fragile and even the Bank of England would admit that the final stage of reopening the economy will have little impact on economic activity.

At this stage, we would say that GBP lacks the momentum to break through a key support level in EUR/GBP at 0.8530 or push above resistance at 1.3930/40 in cable.

OPEC+ travails provide some temporary support for oil exporting FX

There are many reports today of oil prices 'surging' after OPEC+ has failed to reach an agreement on fresh supply increases. 'Surge' is an over-statement, Brent is up just 0.3% at $77.40 - yet prices are indeed high. As Warren Patterson notes in his latest oil update, the most likely outcome from all this is more volatility. Despite the bullish assessment of the current stand-off between the UAE and the Saudis, there is a left-field risk that the OPEC+ deal breaks down and oil prices collapse.

All the oil exporters in the FX world are doing well today, as is the commodity complex in general. Of these, we would still prefer to back the Mexican peso, funded out of euro or ideally the Swiss franc, where Mexico is really enjoying the fruits of stronger US domestic demand. USD/MXN could retest the 19.60 lows.

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