

FX Daily: Making sense of range-bound trading

Falling yields helped JPY, a correction in oil weighed on CAD and NOK, and the Aussie dollar jumped after the RBA marginally reduced asset purchases. But the dollar has remained flat against the euro and sterling. As markets still try to make sense of China's regulatory crackdown, a mixed sentiment on the recovery still points at a flat or slightly higher USD



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➔ USD: Not finding direction

The first day of a rather crowded week likely opened more questions than offering answers to a market that is responding to inputs in a bit of an unconventional way. China's opening for discussions with the US on overseas regulations let Asian equities rebound, but markets still need to fully digest what the implications of Beijing's regulatory crackdown will be and whether this will be a new ground for Sino-American diplomatic spats. On the data side, a contraction in the ISM Manufacturing index highlighted once more how supply-chain strains are weighing on the recovery, but the demand side remains strong. When paired with below-consensus PMIs in China yesterday, the market turned a bit less optimistic on the global recovery.

The impact of some global growth re-rating was mostly channelled through a drop in yields – this pushed the [oversold](#) JPY higher – and a correction in oil prices – which weighed on CAD and NOK. Equities proved resilient overall, despite Dow closing with a small loss, and this likely put a cap on the dollar's upside. Other currencies – with the exception of antipodeans, that we discuss below – have not been able to break free from their recent ranges.

Today is the quietest day of the week data-wise and markets will remain focussed on any developments in the China-US regulatory crackdown themes. Asian stocks have shown some renewed weakness, but futures point at a positive open of major US indices. We continue to see the overall environment as likely neutral or mildly supportive for the dollar: sentiment on the recovery remains mixed at best, while the prospect of Fed tapering has remained broadly untouched, and was likely cemented by some rather hawkish post-FOMC Fed speak.

➔ EUR: Rangebound remains the name of the game

EUR/USD has traded sideways since the start of the week, as both the EUR and the USD appeared unable to make idiosyncratic moves. This should remain the case today as no data releases are likely to move the market and there are no ECB or Fed speakers scheduled to speak. While range-bound trading still appears the name of the game for EUR/USD, we are more inclined to think the pair could retrace towards the 1.1800 level rather than decisively break above 1.1900 in the remainder of the week.

➔ GBP: Lack of catalysts

Sterling is largely following EUR/USD rangebound trading, and also in the UK the calendar looks very light today. Some positive news on the contagion side (cases continue to decrease in the UK) and expectations that the UK Government will allow a broad re-open of borders in Thursday's travel-restrictions review are marginally improving the recovery story, but the impact on asset prices is not tangible for now. EUR/GBP could gravitate around the 0.8550 area heading into the BoE meeting on Thursday.

➔ AUD: No material change from the RBA

AUD has started the week on the front foot: China opening a discussion line with the US on overseas regulation has helped the highly exposed antipodeans, iron ore prices have bounced back, and the RBA announcing asset purchases will be reduced from 5 to A\$4bn a week from September offered an extra push to AUD this morning. As discussed by our economist in the [RBA review](#), we struggle to see this as a change in stance by the RBA, and the positive AUD reaction may have been the function of part of the market pricing in a halt in the tapering process after the rise in Delta cases in Australia. What matters the most, in our view, is that the forward guidance remains for 2024, and that simply confirms the RBA will be lagging other central banks (especially the RBNZ) considerably in normalising policy, which somewhat limits the upside for the currency in the longer run. From a shorter-term perspective, the AUD continues to be a [widely oversold](#) currency and has the widest room among pro-cyclical peers to price in central bank hawkishness.

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