FX Daily: New season, new look for the dollar?

The dollar is starting the week on a softer note, as new US measures imposed against Hong Kong were not as bad as feared and it looks like OPEC+ will extend production cuts by another one to three months

USD: The dollar downside is starting to gain some momentum

After last week's downside breakout in the DXY, the dollar is starting the summer on a soft footing. Two big headwinds to the rally in risk assets and a softer dollar have been temporarily overcome: (1) New US measures imposed against Hong Kong were not as bad as feared (allowing the Hang Seng to rally and USD/Asia to drop) and (2) it looks like OPEC+ plans to extend cuts another one to three months, keeping crude and the commodity FX complex bid. The big question is whether we are just seeing the dollar traversing a short-term range or embarking on a more sizable decline? We had pencilled in a bigger dollar decline for the second half of the year but will be alert to this trend emerging sooner than we had expected. In terms of the G10 FX Week Ahead, after today's US manufacturing ISM the week will work up to another large fall in nonfarm payrolls on Friday. As we have noted recently, the loss of the US growth and yield advantage leaves the dollar a little naked and as confidence tentatively builds in a global recovery, the dollar should weaken. Could DXY see 97 this week?

EUR: More stimulus on its way

The resilience in risk assets probably owes something to a re-assessment of European risk and growth prospects. Progress on the EU recovery fund helps here, and we can see this tome continuing into the June 18/19 EU summit. This week we expect the ECB to top up its Pandemic Emergency Purchase Programme by €500 billion and there is also talk of a new German stimulus package. In our week ahead, we had felt EUR/USD would stall at resistance in the 1.1200/1240 area – which may well be enough of a rally for the time being. But any re-rating of European risk – e.g. a switch from equity investors into Europe from overweight US positions could trigger a broader EUR/USD recovery. Elsewhere, the rally in EUR/USD is unlocking gains in CE4 FX and the Scandies. Of these, our team thinks the Polish zloty's rally may be on the least solid ground.

GBP: Transition talk acrimony

The lead up to tomorrow's Brexit transition talks has been characterised by the typical acrimony one expects of these events. Sterling is actually performing OK, holding its own with the rally against the dollar. Look out for the UK manufacturing PMI today, but overall, we prefer to back the EUR over GBP this week and feel 0.91 should be the target for EUR/GBP this June.

CNY: USD/CNH pulls away from 7.20

The risk of USD/CNH breaking above 7.20 had been one of the main threats to risk assets and high beta FX. Whether Washington's bark on China will be worse than its bite in a US election year remains to be seen, but a lower $/Asia complex certainly helps the overall risk story and the broader dollar bear trend.

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