FX Daily: No respite in sight for the US dollar

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USD: No respite in sight

The bar for any reversal in the dollar decline seems to be set rather high. After the EU summit led to rises in the euro and cyclical currencies vs the US dollar last week, the dollar now faces a mix of geopolitical tensions and uncertainty about the US economic recovery. On the former, the US and China are now reciprocally closing their consulates in various cities, sparking concerns about the durability of the US-China trade deal. On the latter, the focus of the week will be on talks around the next US fiscal stimulus bill. Republicans have delayed the announcement of their stimulus package, with $600 a week payouts set to expire at the end of this week. Whether these payouts are extended (even partially) will be crucial for the near-term US growth outlook. At the FOMC Meeting on Wednesday, we expect the Fed to keep an accommodative stance in place, particularly given the recent rise in the US Covid-19 cases and the accompanying downside risk to the US economic outlook. The cautious Fed should keep the outlook for risk assets supported. See G10 FX Week Ahead for details.

EUR: Idiosyncratic positives priced in, but benefiting from weak USD

With USD weakness in place, EUR/USD broke above 1.1700 level despite the outcome of the EU summit last week being fully into the price of the euro. With the US dollar to stay soft today and the July German Ifo expected to confirm the improvement in sentiment showed in Markit's PMIs surveys last week, EUR/USD should stay around the 1.1700 level and hold onto its material gains of recent weeks.

GBP: More of the same

It should be more of the same for GBP this week. It is a very quiet week on the UK data front with the currency to remain the laggard and the underperformer in the European G10 FX space (as has been the case overnight). No progress on the UK-EU trade negotiations is expected and with news headlines suggesting an increased perceived probability of no deal, there is little to be optimistic about for GBP. We look for EUR/GBP to breach the 0.92 level this summer.

JPY: Time to shine?

Tha Japanese yen appears to be gaining momentum as geopolitical tensions re-emerge and the yen looks to be the most attractive safe-haven option in the G10 space. On the one hand, the dollar has to now deal with the combination of unsupportive data (which is set to get worse, according to our economists) and a dramatic virus situation, which appear to have the potential to partly curb the benefits of risk-off. On the other hand, the safe-haven Swiss franc could still be facing the negatives of improving sentiment in the eurozone.

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