FX Daily: Eurozone PMIs offer chance for euro rally

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USD: The rebound didn't last long

The dollar is feeling renewed pressure as risk assets found support from news that Pfizer's Covid-19 vaccine is on track for regulatory review in October. There is mounting speculation the approval might come as early as November, with some potential implications for the US election. A possible PMI-induced EUR outperformance may push DXY back to this week's 92.14 lows today, as the dollar may find little respite heading into the weekend. US PMIs should have a limited impact on the dollar.

EUR: PMIs may offer an idiosyncratic push

EUR/USD is back to trading close to the 1.1900 level and today's PMIs will offer the pair a chance to break higher, taking advantage of the soft USD momentum. Our economists are expecting above-consensus reads in both the manufacturing and services gauges. The latter will likely be closely monitored as consensus is looking at a marginal decrease in services to 54.50, while we see potential for another jump, well above the 55.00 mark. The euro has lacked a catalyst to push higher of late so indications of a recovery in eurozone business sentiment could fuel short-term upside for the currency – although EUR/USD remains primarily reliant on more USD weakness in the longer run. Comments by French President Emmanuel Macron and German Chancellor Angela Merkel in favour of keeping their economies open despite new spikes in virus cases should also offer room for a move back towards this week's 1.1960 high.

GBP: Good data, but focus stays on Brexit

We expect – in line with consensus – today's PMIs to endorse the upbeat mood in the UK dataflow set by better-than-expected July retail sales this morning. Still, data may fail to drive GBP moves as the focus remains on Brexit talks. With little prospect of progress in negotiations at the moment, we continue to highlight the non-negligible risk of a correction in the over-complacent GBP.

BRL: Crisis averted, but watch out for more "scares"

The Brazilian *real* saw sharp under-performance after the Senate on Wednesday opened the door for some public sector pay increases next year. A crisis was averted by the House blocking the pay rise yesterday – which helped USD/BRL to move back to the 5.50/5.60 range amid a mostly weaker dollar – but our economics team highlights the risk of many more 'scares' later this year. While we still think fiscal sanity will prevail, there is mounting pressure to suspend the spending ceiling. BACEN responded to BRL weakness yesterday with the first spot USD auction since 30 June, but with the BRL implied yield through the 3-month NDF now a paltry 1.4%, interest rates provide very little protection.

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