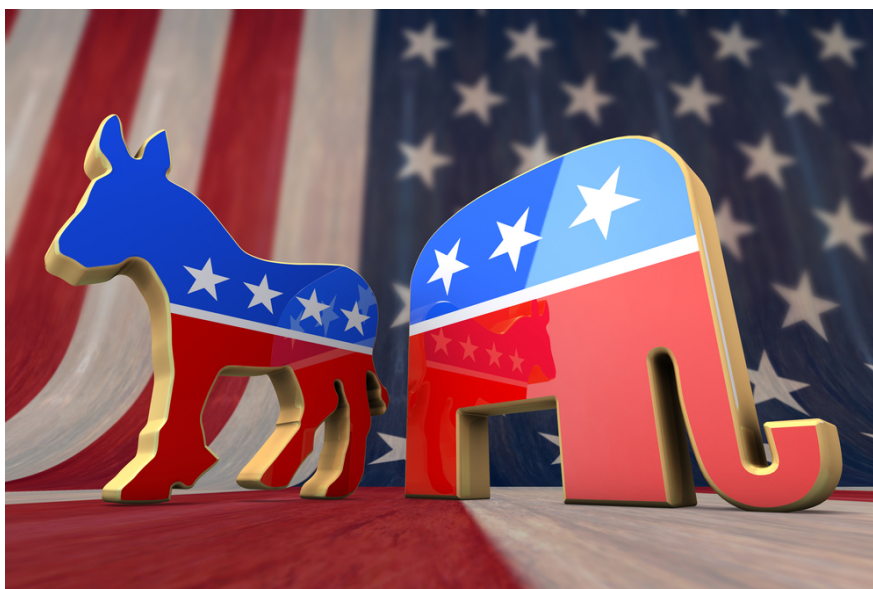


## FX Daily: Politics, hurricanes and recovery hopes

US politics remains centre stage ahead of the Republican National Convention. Investors are also keeping a close eye on the course and strength of two hurricanes set to hit the Gulf of Mexico



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### ➔ USD: Data to play a secondary role

The new week has started with range-bound moves in the G10 despite Asian equities having set an optimistic tone in early trading. US politics remains centre stage. Along with any developments in the US relief package talks, two threads will be closely monitored from an election perspective: (a) the \$25 billion of funding to the US Postal service voted by the House, which should however be voted down by the Senate; (b) President Trump's reported interest to fast-track the approval of Covid-19 vaccines, and the FDA having granted an emergency authorisation for blood plasma treatment. Developments in the first thread may impact the perceived chances of a contested result in November, while the latter is seen as a way for Trump to regain some consensus. Meanwhile, investors will keep a close eye on the course and the strength of two hurricanes set to hit the US Gulf of Mexico. Sixty percent of oil production in the region has already been shut, but oil has yet to benefit from the expected supply shock as rising Covid-19 contagion worldwide (and especially in Europe), are playing as a strong counter-factor for now. Finally, concerns around

geopolitical turmoil are being fuelled by more demonstrations in Belarus, as markets weigh the risk of direct intervention by Russia. Amid such an abundance of potentially market-moving events, data will play second-fiddle today, with the calendar looking quiet in the G10 space. Moving ahead in the week, risk-sentiment will depend on the ability of policymakers to keep the recovery hopes alive, and will culminate with the Jackson Hole Symposium starting on Thursday. We discuss our weekly views in [“G10 FX Week Ahead: Keeping the V on the road”](#) and highlight a balanced outlook in the next few days for USD crosses.

## ➔ EUR: Is the correction gaining momentum?

The EUR/USD rally is showing increasing signs of fragility, the latest triggered by some disappointing eurozone PMIs on Friday, with the services gauge pouring cold water on the recent data excitement. Tomorrow's Ifo indicator in Germany may be pivotal for the euro to avert another leg lower, with positive signals from manufacturing possibly offsetting the slump in services. While there is a chance of the correction gaining momentum and pushing the pair briefly below 1.1700 this week, the factors that drove the recent EUR/USD strength still look in place and we maintain our one-month target at 1.20.

## ➔ GBP: Hoping for some negative-rates clarity

The collapse of Brexit negotiations has triggered a relatively contained correction in sterling, and focus this week will turn to Bank of England speakers that may shed some light around a possible move into negative rates.

## ⬇ NZD: Rising contagion fueling RBNZ cuts speculation

The Kiwi dollar is facing pressure as New Zealand Prime Minister Jacinda Ardern continues to adopt a firm approach to the resurgence of virus cases in the country after Auckland's (which by itself accounts for a large chunk of the country's GDP) lockdown has been extended by four extra days. The inevitable economic backlash is likely fuelling speculation that the Reserve Bank of New Zealand will step in with more cuts soon, something which has been a key driver of NZD's recent underperformance.

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