

FX Daily: Rising recovery tide sinks dollar

The decline in the dollar is gaining momentum as investors take on more risk amid hopes for an economic recovery



Source: Shutterstock

⬇️ USD: Momentum is against the dollar

The dollar decline continues to broaden and gain momentum as investors continue to back recovery stories. It is somewhat of a surprise that the G10 commodity currencies are still leading the advance against the dollar – as they have done since late March – even suggesting they are undoing some of the bearish positioning during President Trump's 2018/19 trade war. [As we discussed yesterday](#), the FX moves we are witnessing may be more than just a short squeeze and the start of a broader trend away from the dollar – especially now that the USD has lost the backing of growth and yield differentials. For today, the mood is positive after Korea announced a huge, third fiscal stimulus, Germany continues to debate fresh stimulus and Brent is trading close to \$40/bl. Any downside surprise in US ADP or ISM services data today may be taken as an excuse for the dollar to weaken a little further, where DXY could drop to 97.00. USD/JPY seems too strong above 108 and we would still favour this pair trading to 105 as the dollar sell-off broadens even further.

⬆️ EUR: Rising tides lifts all boats, even the EUR

EUR/USD will not see the same dynamics as AUD/USD (since the speculative market has been long

EUR since late March), but any pick up in front-end traded volatility should suggest there is more to come on the EUR/USD upside. Our [ECB crib-sheet](#) suggests the EUR may not garner much more independent strength for the time being, placing the burden for a higher EUR/USD on a weaker dollar. Any close above the 1.1230/40 area suggests the latter may be the case.

➔ GBP: Favour 0.89-0.90 range in EUR/GBP

Sterling has enjoyed some temporary outperformance on reports of more flexibility in the UK Brexit position, but we doubt [GBP can hold onto gains](#).

⬆️ CAD: Macklem's steady debut

The Bank of Canada announces monetary policy today as Governor Stephen Poloz hands over the reins to Tiff Macklem. Poloz will be in charge of today's statement, which should aim to ensure a smooth transition. The Canadian outlook has surely improved as oil prices have recovered and the economy has started to re-open, but the BoC should reiterate its commitment to maintaining its quantitative easing scheme in place until the recovery is well underway. This scheme involves buying government, provincial and corporate bonds. Markets also appear positioned for a quiet exit for Poloz and with no monetary policy report or press conference scheduled, the chances of the Canadian dollar being only marginally influenced by the meeting are quite high. USD/CAD downside continues to look attractive as risk sentiment proves extra resilient and oil remains bid. USD/CAD has its eye on 1.3440.

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