

FX Daily: Still following the upbeat Asian mood

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Source: Shutterstock

📉 USD: Equity resilience still centre stage

Chinese equities extended their rally this morning and continue to offer global risk assets an optimistic counter-argument to new record rises in US Covid-19 cases. The dollar is under renewed pressure as equities continued to shrug off grim pandemic news: US stocks were led higher by tech outperformance yesterday and European equities are set to follow the upbeat Asian mood today.

The yuan remains a key outperformer (USD/CNY is trading below 7.00 for the first time since March) thanks to incessant flows into Chinese stocks and the People's Bank of China not hindering the appreciation just yet – fixing at 7.0085 was in line with model-based estimations. Meanwhile, the possibility of discussions at the White House to break the HKD-USD peg as retaliation to China has not had a follow-on and the lingering rangebound moves in HKD 12-m forwards suggest currency markets are not treating it as close to a material risk for now.

The highlight of the day in the US calendar is the jobless claims report. The consensus is centred

for another slowdown in initial claims, which may, however, be quite marginal (to 1,375k, according to a Bloomberg survey, from a previous 1,427k). A potential stalling in the figure may re-ignite doubts on how much the US jobs market is truly recovering, looking beyond the encouraging payrolls numbers. So, jobs data has the potential to dent the general optimistic tone later today but, until then, the push from Asia may be enough – in an otherwise quiet calendar – to keep sentiment supported and the dollar gently offered.

📈 EUR: Rollercoaster talks on the Recovery Fund are no surprise

Negotiations around the EU Recovery Fund are coming alive as German Chancellor Angela Merkel is persevering in her mediation role while sceptical voices appear to be getting louder. Markets have long acknowledged that negotiations would likely be bumpy, a reason why we are not seeing any true sensitivity of the EUR to the daily swings in optimism about the realisation of the Fund.

The risk-on/dollar-off environment is offering a chance to EUR/USD to break above 1.1400 (eyeing the June high at 1.1420) by the end of the week.

➡ GBP: Sunak's fiscal boost is no big driver for sterling

As [we discussed yesterday](#), we do not see yesterday's fiscal announcement by UK Chancellor Rishi Sunak as a game-changer for sterling.

This is because the modestly higher-than-expected fiscal boost do not materially change our UK growth outlook and the main GBP driver, EU-UK Brexit negotiations, is still covered with a thick layer of uncertainty, keeping GBP upside capped.

[UK: What the Chancellor's announcement means for the economy and sterling](#)

📈 CAD: Busy week ahead

Yesterday's announcement by the Canadian government that the federal deficit is expected to rise to CAD343bn in 2020-21 (15.9% of GDP) was largely expected and had a limited impact on CAD.

While investors still await new fiscal measures in the coming weeks, jobs data tomorrow and the BoC meeting next week will be watched: we have a broadly balanced CAD view in the short term.

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