

FX daily: The bear trend is under way for the USD

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⬇️ USD: Bear trend under way

We expect Fed Chair Powell's induced USD softness to continue this week, with the narrative of negative US real rates for longer making the dollar fairly unattractive over upcoming months and quarters.

On the data front, the focus of the week will be on the US labour market report due on Friday. Our economists are looking for a below-consensus non-farm payrolls number and unchanged unemployment rate. While backwards-looking indicators, less positive numbers vs market expectations might be modestly USD negative as it would cement the lower-for-longer Fed interest rate outlook and the unappealing USD attractiveness.

Expect DXY to continue to grind lower, though in a more orderly fashion than last week. As for today, price action will be influenced by the month-end rebalancing lows.

[See G10 FX Week Ahead for more details.](#)

➔ EUR: Individual country Aug CPI numbers won't impact euro

Individual eurozone countries August inflation number will be reported today (i.e, Germany, Spain, Italy), ahead of the overall eurozone CPI release tomorrow.

Generally, the bias for eurozone CPI should be modestly lower, but with the ECB easing programmes fully in place, a dip is unlikely to increase expectations for further loosening and thus be negative for EUR.

With the soft USD environment set to remain intact for months and quarters to come, the bias remains for higher EUR/USD.

➔ GBP: Speculation about tax increases having so far limited effect on GBP

Press reports over the weekend that the UK Treasury plans to increase taxes to partially offset the Covid-19 support programme related fiscal shortfall had so far a negligible impact on GBP as there does not appear to be clear consensus within the Conservative party.

On the UK data front this week, the focus will be on August manufacturing and services PMIs (Tue and Thu). Both readings should remain fairly flat, suggesting the degree of USD softness will be the key driver of GBP/USD.

The positive market sentiment has also spilled over into EUR/GBP, with the cross now close to the 0.8900 level. Still, given that we don't expect material progress in the UK-EU trade negotiations in coming weeks and see scope for negative headline news, we see downside to EUR/GBP as limited

➔ JPY: Selection process for the new LDP leader underway

The selection process for the new LDP leader is underway (following the resignation of prime minister Shinzo Abe last Friday), with the party leadership discussing the timetable and the election process over the weekend with elections planned for mid-September.

As for this week, we should get more insights about who is and who isn't standing (ie, the Fin Min Aso is unlikely to stand). We expect a limited spillover from the political situation into JPY this week, with soft USD pointing to gently lower USD/JPY.