

## FX Daily: The dichotomy of short- and medium-term outlook

Investors seem to be caught within the dichotomy of short-term and medium-term outlooks. The former suggests caution as the number of Covid-19 cases rise across Europe and the risk of the US election outcome. In contrast, the latter points to a more upbeat view on risk assets given that this time horizon moves beyond the tough winter months



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### ➔ USD: The dichotomy of short-and medium-term outlook

After the profound sell-off in risk assets yesterday, markets have stabilised overnight, USD is modestly softer and European and US equity futures point to a higher open today. Investors seem to be caught within the dichotomy of short-term (i.e, coming weeks) and medium-term (i.e, the 2021 view) outlooks.

The former suggests caution due to the rise in the pandemic in Europe and the risk of the US election outcome. In contrast, the latter points to a more upbeat view on risk assets given that this time horizon moves beyond the tough winter months ahead (and accounts for the subsequent recovery, particularly in Europe), the likely existence of the vaccine and the ongoing support from global central banks.

The constructive medium-term outlook and the possibility of missing out (on the rally) suggest

that, despite the bumpy ride ahead in coming weeks, periods of risk assets coming under pressure should be one-off and not long-lasting. This means a prolonged USD strengthening trend seems unlikely.

### ➔ **EUR: Limited price action ahead of the ECB meeting**

Despite the risk-off day yesterday, EUR/USD managed to stay above the 1.1800 level and with markets stabilising overnight, the pair should remain above this level today. Equally, a more pronounced EUR/USD upside seems unlikely ahead of the ECB meeting on Thursday.

While neither we nor the market expects any new measures, the risk of dovish tone (and hints at more easing in December) should keep EUR/USD upside limited, particularly when the eurozone economy is currently suffering more than the US from surging Covid-19 cases (and related restrictions).

### ➔ **GBP: More of the same**

EUR/GBP continues to trade in a tightly range bound manner, with the next move in either direction (and the break of the range) coming from the eventual outcome of the negotiations, which are unlikely to materialise until mid-November. Until then, it should be more of the same for the pound.

### ➔ **SEK: Outperforming its G10 cyclical peers**

Despite the stronger USD environment and the decline in risk assets, SEK has been fairly resilient, outperforming its G10 cyclical peers and being modestly up against EUR.

This is partly due to its lower beta to risk (versus its G10 cyclical peers) and partly due to the fact that possible Riksbank easing via QE should not come as a surprise (following Governor Ingves' comments last week).

Still, given the broader uncertainty and downside risk to European growth stemming from the rise in Covid-19 cases, EUR/SEK should struggle to persistently move below the 10.300 level this week. The September Household Lending indicator published today should have a negligible impact on SEK.