

FX Daily: The dollar decline takes a breather

The US dollar appears to be entering a period of consolidation. Here's our roundup of what we expect to be happening in major currency pairs this Monday



➔ USD: Consolidation sets in

After suffering its largest monthly fall in three years, the start of August sees the dollar entering a period of consolidation. However, the factors that have seen DXY fall 10% from its spike high in March are still in place and we expect a 'sell the rally' mentality to develop through August. As we discuss in the [G10 FX Week Ahead](#), the US story this week will primarily be about jobs and benefits.

On the former, our team is slightly below consensus for the July ADP & NFP figures (& looks for a net jobs decline in August) adding weight to the view that the US second wave is generating some independent dollar weakness. At the same time, the market will be focusing on the Phase IV stimulus package – now that the supplemental employment insurance has expired. Delays here will not help the dollar. Looking at seasonality trends, August seems to mark a more difficult month for US equities and risk currencies in general – which could prompt some profit taking for a

market generally positioned short dollars. Yet it is a long three months until the US Presidential election and we suspect that DXY corrections may struggle to beat the 94.50 area.

➔ EUR: Speculative longs becoming extreme

Perhaps one of the biggest impediments to a further advance in EUR/USD is the fact that speculators have been positioning for this outcome since late March and net EUR long positioning now matches that seen in early 2018 – shortly before Trump's trade wars killed the 2017/18 EUR/USD rally. Now, however, the loss of US growth and rate differentials, plus a challenging run-in to November elections suggests the EUR/USD rally is more sustainable. We had thought 1.1740 might prove the EUR/USD corrective low this week, but there may be outside risk to the 1.1630/50 area – especially with realised volatility rising.

⬇ GBP: Rally looks fragile

The British pound has been performing surprisingly well. The highlight this week will be Thursday's BoE meeting, where the focus will be on negative rates. While the SONIA markets already prices these for early next year, we presume it is far too early for the BoE to rule out their use and that GBP will stay fragile into the meeting – this despite a speculative market short GBP/USD. We do not see EUR/GBP trading under 0.90 for too long and continue to favour 0.91/92.

➔ CNY: Still trading positively

It is interesting to see US threats against Chinese interests (such as those from the Secretary of State, Mike Pompeo) having decreasing marginal impact on the CNY and Chinese assets markets. The better July Chinese manufacturing PMI is probably helping and despite oil looking fragile, the stable/strong CNY can provide support to commodity FX.

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