

FX Daily: The Fed is back to haunt the dollar

The Federal Reserve's announcement that it will start purchasing a wide range of corporate bonds and expand its Main Street lending scheme, along with rumblings about a \$1 trillion US infrastructure plan, are helping risk assets and weighing on the dollar



Source: Shutterstock

USD: Busy calendar to endorse sentiment recovery

The Fed stepped in once again to lift sentiment by announcing it will start purchasing a wide range of corporate bonds under its emergency lending programme whilst expanding its Main Street lending scheme. The extra policy stimulus may also be accompanied by \$1 trillion infrastructure plan which is reportedly in the pipeline at the US Department of Transportation. This has helped to outweigh lingering concerns around rising Covid-19 cases in some US states, prompting a turnaround in equities and a downward move in the US dollar. A growing acceptance that the Fed will always deploy more firepower when needed is bearish for the greenback. The first of two semi-annual reports by Fed Chair Jerome Powell today should further point in this direction and could possibly add more pressure to the dollar in the session. Data-wise, our economists expect above-consensus reads in US May retail sales (9.5%) and industrial output (3.8%), which may endorse market hopes for a V-shaped recovery and provide more support to risk sentiment. Should this be

the case, the dollar downtrend may be outpaced by a falling Japanese yen and Swiss franc today, while AUD/USD may push back up to 0.70 and NZD/USD to 0.65.

↑ EUR: ZEW may surprise markets

The German ZEW indicator may recover by more than the consensus expects, according to our economists. This may add steam to the euro's momentum, and fresh USD weakness may see EUR/USD enter this week's EU summit trading around the 1.14/1.15 area.

↑ GBP: Hanging on Brexit headlines

The furlough scheme has helped the UK avoid the sort of unemployment spike seen in the US, but there are growing concerns about a second wave of redundancies as support packages begin to be adjusted over the summer. However, sterling remains closely linked to the Brexit saga and will likely require further evidence that the EU and the UK are getting closer to a deal to preserve its momentum.

↓ JPY: BoJ a non-event as expected

The Bank of Japan expanded its lending facility to businesses overnight, but left little mark (as expected) on the markets as the Bank left its policy stance and asset purchase size unchanged. A busy calendar may lean in favour of market optimism today and set the yen for a grim day, especially on the crosses.

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