FX Daily: The never-ending dollar resilience

The dollar remains bid amid positive US services data and an improvement in the trade outlook, which further reduces the probability of an aggressive Fed cutting cycle

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USD: The never-ending dollar resilience

Despite the improvement in the US-China trade outlook (and talks of a potential roll back of some of the tariffs), the dollar remains bid and cyclical currencies are not staging a meaningful rally. The dollar is not depreciating because the trade truce / improvement in the outlook further reduces the probability of an aggressive Fed cutting cycle - this in turn suggests that the dollar is to retain its carry advantage. With the October ISM non-manufacturing surprising on the upside yesterday, this further reduces the case for imminent Fed cuts and is to support the dollar predominantly against the G10 low yielders such as the euro and Japanese yen. Although the tentative improvement in the trade outlook is not bad news for emerging markets / cyclical FX, unless we see some tangible recovery in economic data (outside of the US) or the dollar starts depreciating for idiosyncratic reasons, the cyclical / EM FX segment will struggle to make meaningful spot gains at this point.

EUR: Attractive funding characteristics dominate

While the euro should benefit from further signs of a trade truce, given the region's large open economy, its attractive funding characteristics dominate. Moreover, unlike the case for the Fed, the scope for hawkish re-pricing of the ECB outlook is limited (as evident by the different scale of the moves in front-end eurozone and US rates). With the USD bid and most of the positive news from re-pricing of the Brexit outlook behind us, this suggests near-term European FX underperformance. We see EUR/USD heading to/below 1.10 in coming weeks. In the European space, we don't like SEK and look for more HUF weakness. In the UK, Parliament was dissolved yesterday, with the election campaign officially starting today.

RON: NBR on hold with stable EUR/RON ahead of Presidential election

We expect the newly appointed NBR Board to keep the key rate unchanged at 2.50% today. The November Inflation Report will follow a few days later and our economists expect the outlook to be revised down. It's highly unlikely that the new forecast will change anything in the NBR's stance, given the electoral cycle and fiscal constraints. We look for stable EUR/RON ahead of the Presidential elections this month (10 and 24 November), with a risk of a shift higher in the EUR/RON trading range thereafter.

PLN: NBP on hold

The NBP is widely expected to stay on hold. The new November inflation projections should bring minor downward revisions to GDP growth and upward revisions to inflation. The impact on the Polish zloty should be muted. With the bulk of the Central and Eastern European FX gains stemming from positive news on Brexit, which is now priced in, and the potential for near-term underperformance of European FX (due to a stronger USD and struggling EUR/USD), the downside to EUR/PLN is limited.