FX Daily: The peak might have passed for USD

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USD: Tentative downward trend

The week appears set to end on a quiet note as US markets are closed for Independence Day and the economic calendar looks rather unexciting today.

Global sentiment is stable during early trading, still finding some support from yesterday's upside surprise in US payrolls. While the unexpected 4.8 million rise in employment surely contributes to the notion of a sharp economic recovery, our economists highlight how the jobless claims report is showing 31.5 million Americans are claiming unemployment benefits, which is nearly double the 17.7 million unemployed according to the jobs report.

Such understatement of unemployment may turn out to be a ticking bomb for markets, and the July jobs report bears the risk of being a big disappointment. For now, however, markets are focussing on the positives from the jobs data and continue to be only moderately concerned about second Covid-19 waves.

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Today, expect tight ranges and a general stabilisation to prevail in FX.

EUR: One less thing to worry about

German lawmakers voted yesterday to back the ECB bond-buying programme, therefore putting an end to the legal standoff with the country's top court. The news had already been priced in by markets after some reports earlier in the week, and the whole German court ruling story had so far failed to particularly stir the EUR, as investors were not seeing any material implications for the ECB just yet.

Looking ahead, however, the EUR will have to deal with one less piece of uncertainty, which indeed helps our bullish EUR/USD view for the rest of the year. Today, final eurozone PMIs are unlikely to trigger significant market moves, and ECB's Knot speech (1300 GMT) appears to have little surprise potential. Instead, keep an eye on Saturday's speech by President Christine Lagarde for possible delayed impacts when markets re-open next week.

GBP: Helped by Brexit optimism

A week of EU-UK trade negotiations end on a fairly optimistic tone, which is fuelling some GBP momentum and we are seeing Cable back at the 1.25 handle. Ahead of a new round of talks next week, the two parties have reportedly softened their stances on a few issues and took steps towards a general compromise.

Still, time constraints and a lingering divergence on a few sticky points suggest any GBP recovery path won't be smooth.

AUD: Stuck in the 0.68/0.70 range

The AUD is leading G10 (very tiny) procyclical gains this morning thanks to a jump in May retail sales along with more optimistic PMI numbers from China.

AUD/USD has been stuck in the 0.68/0.70 range for the majority of June, and this may remain the case for a few more weeks as risk assets may fail to take a decisive direction on the back of perceived balanced global risks.

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