

FX Daily: Trade resilience bodes well for Kiwi dollar

Data from New Zealand today should continue to signal that trade has not suffered materially from global trade tensions. This should help the Kiwi dollar, particularly in light of the less dovish central bank and extensive short positioning



USD: Trade optimism mounts

Another fresh round of optimism on trade failed to dent dollar strength, as the greenback remains on a solid consolidating trend. US and Chinese negotiators have agreed to resolve “relevant issues” in a call this morning and a report suggests that tariff removal was discussed. The news gave some respite to cyclical currencies and pushed USD/JPY to 109. However, markets are cautious after a raft of contradictory trade news in the past few weeks, preventing a fully-fledged risk-on run. Today’s data releases have not moved markets historically, but it will be worth looking at the Richmond Federal Reserve Manufacturing Index (1500 GMT) to see if there’s been any further slump in manufacturing sentiment. Consumer confidence should hold up fairly well, endorsing the notion of resilient consumption in the US. Barring any highly surprising slump in the two prints, the dollar should be able to retain its strength today.

➔ EUR: Lacking catalysts for a turnaround

As our economics team highlighted, yesterday's Ifo index has added to signs of a bottoming out in the Germany economy. In line with recent trends, this is providing a little help to EUR/USD which is now heavily testing the 1.10 support. We suspect this week's agenda does not offer enough positive euro catalysts to avert a EUR/USD move to the 1.0990 14 November low.

➔ GBP: Tory manifesto well received by the markets

Sterling was the key outperformer yesterday and cable is now testing the 1.29 resistance level, despite the dollar's good momentum. The move is likely related to markets welcoming the Conservative manifesto published on Sunday as well as the polls which continue to endorse the Tory lead ahead of 12 December elections. We expect GBP/USD to keep hovering around 1.29 in a relatively tight range in coming days.

⬆️ NZD: Upside potential still in place

After finding further support on the back of yesterday's strong third quarter retail sales, the Kiwi dollar will continue to be driven by data in the next 24 hours as trade numbers are released. A pick-up in exports - fuelled by a rebound in Chinese demand - helped the trade deficit to shrink more than expected in September. October data today should point to a further improved trade balance, once again driven by rising exports, which should continue to signal that NZ trade has not suffered major headwinds from trade tensions. We think the data should help NZD/USD consolidate above 0.64 and - bar a breakdown in trade negotiations - we continue to see upside potential for the pair thanks to a less dovish central bank and NZD extensive net short positioning (at 48% of open interest).

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