

FX Daily: Trade uncertainty hits risk currencies

Pro-cyclical currencies are under pressure after President Trump suggested a phase one trade deal with China may not be concluded this month. But US data today should offer support



➔ USD: The never-ending trade uncertainty

Pro-cyclical currencies are under pressure following President Trump's suggestion that a phase one trade deal with China may not be concluded this month. Still, the reversal seen yesterday afternoon/overnight is not sufficient enough to wipe out gains earlier in the week. As long as there is no escalation in trade war rhetoric and the dollar does not strengthen, risk currencies should regain support. The key data point of the day is US ISM non-manufacturing. We and the consensus are looking for a modest decline, but the series should stay in expansionary territory (as opposed to the Manufacturing ISM which is indicating a recession in the sector). This should ease fears about a more serious US slowdown (yet won't be sufficient to cause a material hawkish re-pricing of the Federal Reserve) and support cyclical and emerging market FX.

➔ EUR: ECB strategic review unlikely to deliver a surprise

The US ISM non-manufacturing survey should keep EUR/USD in check today. The EUR/USD 1.1100 level acts as a strong resistance. As for the [ECB strategic review](#), our economists note that

expectations should not be set too high. A change of the price stability definition to “around 2%”, along with some incorporation of climate change and more communication transparency looks like a possible outcome.

⬇️ CAD: BoC to stay on hold, for now

The Bank of Canada meets today and we expect an on-hold decision ([see our preview here](#)). Markets have been pricing out some BoC easing of late on the back of better data but we still think a cut in 1Q20 is on the cards as external woes persist. Today's meeting may well be a non-event (nothing is priced in), but we see the balance of risks for the Canadian dollar as slightly tilted to the downside as Governor Stephen Poloz may echo the dovish tone heard at the latest meeting. However, we see (a) developments in trade negotiations, and (b) the OPEC+ meeting in coming days as having a higher impact on CAD than today's BoC meeting.

➡️ PLN: MPC on hold and limited impact on the zloty

Our economists expect the Polish MPC to keep rates unchanged today, with the committee reiterating its guidance on flat rates. There may be a motion for a cut, but only one member is expected to support it. The impact on PLN should be limited and the zloty should continue stabilising after a short squeeze caused the PLN to rally earlier in the week (on the back of a rising EUR/USD). We expect EUR/PLN to trade around 4.30 in 2020, with various bouts of PLN downside caused by [re-occurring FX mortgage](#) related headlines.