FX Daily: Surprisingly soft dollar

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U.S. House Speaker Nancy Pelosi speaks during a press conference on Capitol Hill in Washington, D.C., the United States

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USD: Dollar surprisingly soft

The dollar has been surprisingly soft this week, seemingly driven by the on-again-off-again prospect of a fourth fiscal stimulus package and a growing sense that a Biden administration would restore some order to world trade. On the latter point, President Trump and Joe Biden face off in a TV debate tonight in Nashville – perhaps the President's last chance to seriously close the gap in the polls.

Also helping to keep the dollar weak has been money pouring into Asian equity markets and the strong decline in the likes of USD/CNY and USD/KRW. With Covid-19 under control in these two large Asian economies, it seems these currency trends look set to continue. Lookout today for the weekly US initial jobless claims figures, where any disappointing rise in claims could warn that employment gains have stalled and threaten a negative October NFP release in early November.

DXY could trade a tight 92.50-93.00 range, but the dollar could weaken in Asia tonight if Biden performs well in the debate.

EUR: Impressive!

We've seen an impressive performance from EUR/USD this week. The move has coincided with a very successful €17bn launch of EU social bonds – although the buyers were largely European.

A stronger story may be Asian FX reserve managers re-cycling newly acquired USD (in an attempt to slow the $/Asia drop) into EUR. Look out for Eurozone consumer confidence today. EUR/$ to trade a 1.1800-1.1900 range. Also, look out for Hungary's central bank deposit rate hike at 1150 CET.

GBP: Trade talks resume, as will volatility

GBP has jumped on news that trade talks will resume. However, any deal may not be reached until mid-November, allowing plenty of time for volatility to rise. Cable may struggle to break 1.3180 today.

Bank of England governor Andrew Bailey and chief economist Andy Haldane are due to speak this morning too.

TRY: Turkey's central bank expected to deliver large hike today

One much-anticipated event is Turkey's central bank meeting today – decision due at 13CET.

The TRY has been stabilising recently as the central bank has tightened policy over recent months. Here, effective TRY funding costs have risen to 12.50% from 7.3% in July. The policy has been tightened by moving funding operations away from the one-week TRY repo (10.25%) and more towards FX swaps (11.75%).

A 150 basis points hike in the policy rate to 11.75% would effectively sanction current TRY funding rates and allow the top of the corridor and the late liquidity window rate to rise to 13.25% and 14.75% respectively. This allows the central bank plenty of room to tighten effective funding rates further should it choose to do so.

While some in the market are looking for a more aggressive 300bp hike today, we do not think a 150bp hike will be taken too poorly. And the further the central bank is prepared to raise effective funding costs (delivering +ve real rates), the more stability should return to TRY ahead of US elections.

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