

## FX Daily: The bad mix helping the bad dollar

Downgrades to growth expectations, the lack of imminent fiscal stimulus and US election uncertainty is not the mix under which cyclical FX would thrive. In the near-term, we think USD and the safe-haven JPY are likely to outperform



### USD: The bad mix helping the bad dollar

USD continues to gain ground as concerns about rising Covid-19 cases induce a slowdown in the global economic recovery, which is weighing on stock markets and cyclical FX, in turn benefiting the oversold anticyclical dollar.

The latest comments from Fed officials about the need for more US fiscal stimulus (which looks unlikely any time soon) added further fuel to the fire, while the risk around the November US Presidential election was underscored by President Trump's comments where he did not pre-commit to a peaceful transition of power if he loses the November ballot (focusing on the legitimacy of mail-in voting).

Downgrades to growth expectations, the lack of imminent fiscal stimulus and US election uncertainty is not the mix under which cyclical FX would thrive.

Near-term, USD and the safe-haven JPY are likely to outperform.

## ⬇️ EUR: Re-rating of global growth negative for EUR and European FX

EUR/USD continues to decline as the re-rating of global growth expectations is weighing on global trade levered EUR (vs the anticyclical dollar and the closed US economy).

Equity futures pointing to a further decline should keep the euro on the back foot today. And German IFO numbers are unlikely to change the trend today.

In Switzerland, the central bank will remain on hold. In the CEE FX space, CZK decoupled from the falling PLN and HUF yesterday not helped by the overly dovish Czech central bank - no easing signalled. With HUF under pressure this week and the currency close to its all-time low vs the EUR, we see a growing risk of a hike in 1-week depo facility (as soon as today) in order to stabilise the currency

## ➡️ GBP: New support measures for the economy unveiled

UK chancellor Rishi Sunak is set to unveil a new set of measures to support the Covid-19 hit economy today. These should include wage subsidies (replacing the furlough scheme) and extension of the loan scheme.

GBP to continue exhibiting lower sensitivity to global factors, with Brexit-related risks being the key currency driver.

## NOK: The Norges bank meeting a non event for the battered NOK

We expect Norges Bank to remain on hold too today.

Following the upward revision to the interest rate forecast at the prior meeting, we're not looking for any material change this time. While the central bank's forward guidance suggests it will be one of the first European central banks to hike in the upcoming cycle, this is now priced in.

The risk environment should remain the prime driver of the currency. The rise in Covid-19 cases is denting risk sentiment, the low liquidity NOK has turned into the G10 underperformer – as was the case during the market sell-off in the spring, when the krone was the worst performing G10 currency.