

FX Daily: Waiting for the final word from Brussels

Optimism that the EU will agree on an EU recovery fund is building. EUR/USD has risen above 1.1450 and a break above 1.1500 appears to be on the cards if a compromise is found today



⬇️ USD: Focus building on new US relief package

The dollar's initial gains overnight are fading ahead of the European market open as a new compromise on the EU Recovery Fund may be shaping up today (more in the EUR section below) and a rebound in Chinese equities is keeping sentiment supported. News from Brussels will remain centre stage today in an otherwise empty data calendar. Talks in the US around the new pandemic relief package have started and are set to be intense as the Democrats have proposed a bold \$3.5 trillion package while the White House is looking at a \$1 trillion plan as a starting point for negotiations. These talks may prove key for markets in a week where data is not set to offer many catalysts.

⬆️ EUR: An agreement today is possible

Three days of intense negotiations in Brussels on the EU Recovery Fund and on the EU budget failed to yield any tangible result. EU leaders will meet again today (at around 13:00 BST), as EU Council President Charles Michel is set to bring a new proposal forward, aiming to find a mid-point between the positions of the 'frugals' and the EU's G4. There are three main sticking points still to address.

- First, the size and grants/loans mix, although here the two sides look quite close to a compromise, as the 'Frugal Four' are reportedly ready to accept EUR390 billion in grants (G4's proposal was EUR400bn) out of an approximately EUR700bn fund. The compromise on this will likely have to be tied to some plans for increased rebates on the Northern countries' budget contributions.
- The second point continues to be the key hurdle: conditionality. Italy and Spain remain highly reluctant to accept the proposal to have Ecofin decide future tranches of the Fund, as the frugal nations continue to push for some mechanism for single states to have control on future disbursements.
- The third point comes from the protests of Hungary and Poland who argue that the availability of the funds should not be tied to the rule of law. They also argue against proposals that a qualified majority may be enough to impose sanctions (Hungary asks for unanimity).

All in all, the notion that EU members are getting closer to an agreement is consolidating among investors this morning, and we see room for more optimism to build in the next few hours. EUR/USD has risen above 1.1450 and a break above 1.1500 appears to be on the cards if a compromise is found today. There is a high chance that markets do not prove particularly sensitive to the details of the Fund but mostly focus on the benefits of the EU finally taking a step towards burden sharing.

➔ GBP: The key laggard in Europe

As we highlighted in our [week ahead preview](#), we are not surprised to see sterling being the key laggard as steps towards a compromise in Brussels generate a positive spillover to European currencies. Rising UK-China tensions are also weighing on GBP as EU-UK officials start a new round of talks today.

⬇️ CHF: Set to suffer from EU compromise

The Swiss franc's role as a quintessential hedge to EU instability suggests we could see EUR/CHF pressure to the 1.0800 resistance level today if material progress comes from today's Recovery Fund negotiations.

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