

FX Daily: Weak dollar to help EUR/USD navigate key tests

Federal Reserve Chair Jerome Powell is likely to reiterate the Bank's lower-for-longer interest rate stance in Congressional testimony this week. That should keep the dollar on the back foot, even if data from Europe underwhelms



⬇️ USD: Few catalysts to stop the decline

The dollar has started the week on the back foot and is set to face very few catalysts on the data side in the coming days as most focus will lay on Fed Chair Powell's parliamentary testimonies that kick off tomorrow. With the Bank's "lower-for-longer" pledge now a consolidated market notion, a mere reiteration this week may not prove a decisive driver of market moves. At the same time, it should leave the USD unable to stage long-lived rebounds and we expect the benign dollar bear trend to take shape again this week.

⬆️ EUR: A busy week

Political events and data releases make for an exciting week in the eurozone. The Italian regional elections – first projections will be published this afternoon – along with a referendum to cut the

number of MPs may have some implications on the perceived stability of the ruling coalition. The PD is at risk of losing further consensus in some key regions, while a failure in the referendum would hit hard the 5 Star party which championed it. Still, a government crisis looks unlikely at this stage due to the very little advantage both majority parties would have in going to the polls now. So, any potential initial market impact should be quickly reversed as signs of a break-up in the coalition are unlikely to emerge. The EUR should therefore be safe as it heads into the more important PMIs on Wednesday. Even then – with another uninspiring reading possible – EUR/USD should still benefit from a weak dollar to limit the downside as markets move on to the EU summit starting on Thursday, which will cover geopolitics (Belarus) and a possible introduction of measures to aid the capital markets union (likely, a EUR positive). Another thread to follow in the eurozone: [the FT reported](#) the European Central Bank will review its Pandemic Emergency Purchase Programme. We will likely hear more on this in the coming days. President Christine Lagarde will also speak today in an online event.

➔ GBP: Still unattractive

Increasingly widespread speculation about a possible re-introduction of more restrictive measures in London – in sharp contrast with the latest “back to work” encouragement by the government – is just another factor suggesting sterling is one of the least attractive G10 currencies from a risk-reward perspective. Brexit talks will remain the key driver this week and we see the complacent GBP still facing sizeable downside risk as no-deal is gradually priced back in.

⬆️ CNY: Bond inflow may add steam to the rally

The People's Bank of China decision to keep the Loan Prime Rate unchanged was largely expected and did not move the market. What could, instead, be a catalyst for more yuan gains this week is FTSE Russell's decision on Thursday on whether to include Chinese sovereign bonds in its WGBI index. This may generate significant inflows to Chinese bonds and offer more support to CNY, with positive implications for the broader emerging markets FX bloc.

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