

## FX Daily: Powell put and second waves

The continued dovishness of the Federal Reserve should bode well for a continuation in the risk rally. All eyes on US jobless claims today and the market reaction will start to tell us whether the release is losing some centrality



Federal Reserve  
Chairman Jerome  
Powell

Source: Shutterstock

### ➔ USD: Fed dovishness overshadowed by second waves

The two key market takeaways from yesterday's FOMC meeting are:

- (a) that the Fed stands ready to support market functioning by keeping asset purchases at least at the current pace and
- (b) that it is not envisioning any hike through 2022.

Putting aside some unmatched expectations on yield curve control, the continued dovishness of the Federal Reserve should bode well for a continuation in the risk rally.

At the same time, the FOMC added another element to the USD bearish argument. And now, with the yen also jumping after the FOMC announcement, it is starting to look like a cleaner weak-USD story, not only to the benefit of procyclical. The Fed has however been overshadowed in the Asian morning by increasing concerns on second Covid-19 waves, especially in the US, with cases in

America that re-opened earlier starting to surge again. This has obliterated the FOMC impact on markets, which started the day on a firmly defensive stance with the dollar, gold and treasuries all turning positive.

Today, the US jobless claims will be watched, as investors search for some confirmation to their recent optimism on the US jobs market. However, it has been reported that the weekly jobless claims report may overestimate the actual unemployment numbers as a portion of the claimants are allowed benefits but do not count in the unemployment numbers, which may help explain the misalignment with the NFP in May. The market reaction function today may start to tell us whether the release is losing some centrality.

[Fed meeting review: Loose for longer](#)

## ➔ EUR: More protected from the rebound in USD

The initial USD-negative impact of the Fed's announcement yesterday briefly pushed EUR/USD above the 1.14 mark. As highlighted above, the Fed's move does endorse a weak-dollar environment in our view, which makes us more confident EUR/USD can hit our near-term 1.15/1.16 target.

The set-back in risk appetite this morning and the USD rebound is taking a toll on pro-cyclical currencies whilst keeping the EUR relatively protected

## ⬇ GBP: EUR/GBP eyeing 0.90 again

The EU's refusal to change Chief negotiator Michel Barnier's mandate – that would have granted him more room to offer concessions to the UK – likely adds another obstacle in the already complicated EU-UK trade negotiations.

Speculative investors seem to be acknowledging the rising risk of a no-deal Brexit as GBP net shorts spiked last week, according to CFTC data. EUR/GBP looks set to push the 0.90 level once again by the end of this week.

## ➔ SEK: Inflation will hardly change Riksbank stance

Swedish inflation data will be centre stage today for SEK. We expect any read that does not suggest a material deterioration in the inflation profile to endorse the Riksbank's wait-and-see approach.

### Author

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

*(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.