

## 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

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### ➔ 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.

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