FX: Much ado about mid-terms

Everything is at play before the mid-term election results come in tomorrow. A Democrat blue wave of a win in both chambers might be tougher for the risk environment, where the market would turn to the politics of impeachment. If the Republicans surprisingly hold Congress, the dollar, equities and Treasury yields would get a lift on the promise of Trump 2.0

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USD: Consensus expects Democrats to take the House and USD to soften

The FX option market prices around a +/- 70 pip move in EUR/USD on the back of US mid-term results, which should be known around 09/10CET tomorrow morning.

The latest polls suggest Democrats have a good chance of winning the House and the Republicans have a good chance of retaining the Senate. Most analysts believe that scenario will see the dollar and US rates dip on the view that chances for any further US fiscal stimulus are curtailed. That is seen as a positive for those emerging market currencies undone this year by higher US rates – largely those currencies running big external imbalances like Turkey, Argentina and South Africa.

A Democrat blue wave of a win in both chambers might be tougher for the risk environment, where the market would turn to the politics of impeachment. And of course polls have been wrong before, thus should the Republicans surprisingly hold Congress, the dollar, equities and Treasury yields would get a lift on the promise of Trump 2.0. There is everything to play for here. Current market positing of long dollar/short risk could see a little adjustment today, suggesting DXY could drift to 96.00 even 95.80, but we'll have a greater insight on the next big trend this time tomorrow.

EUR: Getting a lift from Brexit optimism?

EUR/USD is consolidating in tight ranges and should continue to do so into the mid-terms.

As expected, Eurozone finance ministers yesterday echoed comments of the Commission and asked Italy to resubmit its budget by 13 November – although the BTP-Bund spread looks to be sitting comfortably under 300bp at the moment. We're not big fans of the EUR at the moment, but acknowledge the consensus outcome above could see EUR/USD briefly testing 1.15 again.

Also helping the EUR and European currencies, in general, is some re-emerging optimism on Brexit, where this week is again being touted as make-or-break. Whether UK politicians are again over-playing their hand again on the chances of a deal, remains to be seen, but the removal of a hard-Brexit risk premium will be useful for European currencies in general.

GBP: Focus on today's UK cabinet meeting

Today the focus will be on whether PM May can win over her Cabinet on Brexit. Expect the outcome to be leaked to the press later in the day. GBP is starting to trade on a firmer footing, and we favour EUR/GBP breaking below 0.8720.

AUD: RBA keeps rate unchanged, but cautiously optimistic

The latest policy meeting sees the Reserve bank of Australia remaining cautiously upbeat, but providing no clues about the next rate move. Having broken out of this year's bear trend, AUD/USD could make a run at 0.7260 and 0.7315 in the short term.

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