FX: Temporary relief for market but not a new trend

The modest de-escalation of the US-China trade dispute from the delay in tariffs means that USD should outperform low yielding G10 FX

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USD: Dollar getting support against the G10 FX low yielders

The delaying of some new tariffs on consumer goods provided some relief to risk assets and currencies yesterday. However, as we noted yesterday, one should not get carried away as the lack of visibility on trade war outlook means that yesterday's price action is unlikely to translate into a long-lasting trend.

In terms of the short-term outlook, modest de-escalation of the US-China trade dispute means that USD should outperform low yielding G10 FX as: (a) US Treasury yields should stabilise (ie, the rate differential no longer narrowing vs the likes of EUR); (b) while JPY and CHF should lose the safe-haven allure for now. While the delay in some tariffs has also been temporary positive news for emerging market FX, given the uncertainty about the global growth outlook remains in place (as evident on weaker-than-expected China July Industrial output overnight and the negative German 2Q GDP print this morning) this does not warrant a bullish outlook for EM FX.

The delay in US tariffs on China and the implications for FX

EUR: Eurozone economic data doesn't make the case for a EUR rally

June eurozone industrial production is set to decline today, delivering another soft eurozone data point following the dismal German ZEW yesterday and soft 2Q GDP today. This means the upside to EUR in the current softish USD trading environment is limited and also suggests a fairly limited upside potential for CEE FX (where 2Q GDP prints today should show a deceleration in growth in most of CEE countries).

The CEE FX should also remain weighed now by the downside risks to EUR/USD. EUR/USD to stay below the 1.1200 level today.

GBP: No positive spillover from improving risk appetite

UK July headline and core CPI should remain unchanged today. Although wages are rising at a post-crisis record pace and CPI is on target, the Brexit uncertainty continues to mean limited spillover into the BoE current reaction function. The Brexit overhang also suggests a limited positive spillover from the latest positive shift in global risk appetite into sterling. GBP to remain the underperformer among the non-safe haven currencies within the G10 FX space.

SEK: Global sentiment to override falling Swedish CPI

Swedish CPI is widely expected to decline today largely due to the weather drag from energy prices. This and the move towards easing among global central banks makes the current Riksbank guidance on an interest rate increase a non-credible one. Still, with the market already pricing an almost 10bp cut by December this year; and the boost to risk appetite stemming from delay of US tariffs, this means that today's CPI number should have a muted negative impact on SEK with risks skewed to lower EUR/SEK due to global factors.