FX: The end of the line for sterling

Sterling has recovered some of its losses and has edged above 1.23 vs the dollar, thanks to markets squeezing their stretched short positions. However, we suspect the pound has reached the end of its rally

USD: Payrolls to support the greenback

The ISM reports this week provided contrasting signals about the US economy: the manufacturing sector is now hovering around recession-like levels, but the non-manufacturing gauge sent positive signals. However, the net impact has still been aggressive pricing for Fed monetary easing by the markets - 115bp of cuts in the price by end-2020 – and a weaker dollar. Today's release of the unemployment report may, however, defy part of the dovish expectations and help the greenback recover some of the losses. Our economics team is expecting an above-consensus number of 170k increase in payrolls. DXY may edge back into the upper half of the 98-99 band.

EUR: Turning cautious ahead of the ECB

Today's final read of the 2Q GDP will likely have no impact on the euro, which may start to trade within more and more narrow ranges as some investors shift to a wait-and-see approach ahead of the key ECB meeting on Thursday.

GBP: More upside unlikely

The outcome of the Brexit gridlock now seems to be hanging on the timing and result of an early election. The date of a vote is proving to be the most divisive point and recent reports have hinted at a plan from opposition MPs to hold the vote later than the government wants (Oct 29 may be an option on the table) and force PM Johnson to ask for an Article 50 extension at the EU Council meeting on Oct 17.

The House of Commons will vote on the motion for new elections on Monday after the bill designed to stop no-deal is approved. Meanwhile, Sterling has recovered some of its losses and has edged above 1.23 vs the dollar, thanks to markets squeezing their stretched short positions. However, we suspect the pound has reached the end of its rally. The prospect of elections are unlikely to prove GBP-friendly considering that the Conservatives are ahead in the polls, and may force a no-deal Brexit if they get a parliamentary majority. We may already start to see some downward correction in sterling today as investors gear up for another eventful week.

CAD: Strong labour market to support the loonie

Last Tuesday's Bank of Canada meeting has revamped the bullish sentiment on CAD. Despite the policy statement highlighted a heightened external risk stemming from trade tensions, it didn't fully match markets dovish expectations. In our view, the shift in language was probably enough to flag a more dovish stance and pave the way for a rate cut in October. Today, eyes will be on August employment numbers, which we expect to be broadly in line with consensus and keep endorsing the notion that the labour market is in a healthy state. This should allow CAD to stay supported and benefit from the risk-on environment.

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