

FX: The respite in risk appetite may be short-lived

The key factor to monitor today will be President Trump's reaction to China's new renminbi level. But also worth keeping an eye out on gold's price action after the bullion broke the 1500 \$/oz level yesterday and developments in the oil market will be key for the battered oil currencies, especially the Norwegian krone



➔ USD: CNY fixing above seven not enough to fuel risk-off

China's central bank fixed the CNY above seven to the dollar, at 7.0093/\$ to be precise, for the first time since 2008. Most market participants had already anticipated the move and were actually expecting an even weaker yuan fixing at 7.0156, according to a Bloomberg survey. As a result, the panic selling that some market participants were expecting didn't materialise.

Instead, the overarching interpretation has been that the PBoC is showing determination to let the yuan depreciate only at a controlled pace. Risk assets found some respite, but safe havens held most of their gains, likely suggesting to curb any enthusiasm for a risk-on shift in market sentiment just yet. The key factor to monitor today will be President Trump's reaction to CNY's trading band, as he might use the news to either insist on the recurring "FX manipulation" theme and/or put further pressure on the Fed to ease policy.

We suspect that the rise in market sentiment overnight may have short legs and have already exhausted its beneficiary effect on risk assets. Looking at the dollar, we expect it to remain broadly stable across the board on the day. Elsewhere, it is still worth keeping an eye on gold's price action after the bullion broke the 1500 \$/oz level yesterday. Appetite for the metal has grown along with dropping risk appetite, falling equities and negative-yielding bonds. Our commodities team is not ruling out further appreciation towards 1600 \$/oz by year-end, especially after the end of the Central Bank Gold Agreement (CBGA) - which aimed at harmonising the buying and selling of gold as a reserve asset - may prompt a fresh round of gold purchases by the ECB this Autumn.

Finally, developments in the oil market will be key for the battered oil currencies (NOK, above all) after Saudi Arabia is reportedly discussing measures to stop the decline in crude prices.

➔ EUR: Technical resistances may hamper upsides

A quiet data-release schedule in the US and eurozone for the remainder of the week suggests that EUR/USD may stay range-bound. Any upside will likely face two key resistance levels at 1.1227 and 1.1297 (100 and 200d-MA respectively).

➔ GBP: Trade deal with US only apparently closer

GBP/USD trades slightly higher this morning after US Secretary of State Mike Pompeo said that the US will be ready to sign a new trade deal with the UK post-Brexit. However, momentum for Sterling is unlikely to change any time soon as parliament is still in summer recess and the Northern Irish border impasse remains.

GBP/USD to linger around 1.214/1.218 on the day.

⬆️ MXN: Inflation to test dovish expectations

MXN has joined most of the emerging market currencies in taking the hit from re-escalating trade tensions and it is now back to trading in the upper half of 19.00 vs the USD. The peso has moved hand-in-hand with dropping short-term rates and increasing expectations of monetary easing. July's inflation numbers (at 1200 GMT) may likely need to display a clear slowdown to convince the markets of an August cut (29% implied probability).

Indeed, Banxico may prefer to keep rates on hold in August while signalling a cut in September. All in all, USD/MXN may keep moving towards 19.50 on the day.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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