

FX: Momentum swings against the dollar

Strong commodity (and cryptocurrency) prices, plus sharply falling US dollar hedging costs should keep the dollar on the soft side this week



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⬇️ USD: Markets will be focusing on the Fed and the G20 this week

The dollar starts the week on a soft footing. There has been very little retracement in US rates after their sharp fall last week and the market is still pricing slightly more than a 25 basis point cut at the 31 July Federal Reserve meeting. Key inputs into this story this week will be: i) Powell has a speech on policy at 19CET tomorrow night, ii) Friday's US PCE deflator (another low 1.5% year-on-year reading may worry the Fed) and iii) Friday's G20 meeting and any details emerging from a Trump-Xi meeting. We expect the soft side of the dollar to be explored this week and note that strong commodity (and cryptocurrency) prices, plus sharply falling USD hedging costs (3m USD Libor now off 50bp from the highs) should keep DXY on the soft side.

⬆️ EUR: 200 day m.a. breakout will raise some eyebrows

The softer dollar environment has allowed EUR/USD to break above its 200-day moving average (today at 1.1350). Our view is that EUR/USD traces out a 1.10-15 range into the autumn as ECB rate cuts and European politics hold the euro in check. That said, the current top-side breakout should be carefully monitored, especially since the FX options market is showing a growing bias

towards protecting against a EUR/USD rally. For today, the focus will be on the German IFO survey. Our team is a little more bullish than consensus and given Friday's performance around the slightly better than expected European PMIs, EUR/USD could punch up to the 1.1450 area on a stronger IFO release.

➔ GBP: Cable goes a long for the ride

The softer dollar environment has offered a reprieve to cable. Whether any gains in the polls by Jeremy Hunt over Boris Johnson are worth much to sterling remains to be seen – but remember these will have to be polls of Tory party members, who are being balloted on the two candidates over the next month.

⬆️ ZAR: Stable CNY and better commodity prices can help ZAR

The prospect of easier monetary policy in both the US and the eurozone is helping the South African rand and papering over the cracks of some local fiscal difficulties – e.g. the government's support of Eskom and the prospect for heavier bond issuance. Fiscal challenges will inevitably come back to haunt the ZAR, but for the time being a stable Chinese yuan and the rally in precious metals provides a supportive environment for the ZAR.

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