

Oil-FX in a good position amid US stimulus talks

Our view on how the FX markets could pan out this Tuesday



President Trump is maybe considering a capital gains tax cut which could keep investor sentiment upbeat

➔ USD: Still all about stimulus talks, but keep an eye on oil

The dollar started the week on the front foot as equities were mixed amid a combination of US-China tensions and a gridlock in US stimulus negotiations. Overnight, risk assets are back to trading strongly, putting some fresh pressure on the greenback. In the US calendar, we have the NFIB Small Business indicator today, which consensus is expecting to flatten up after rebounding above 100 last month. Still, most market moves will continue to rely on talks around the US fiscal stimulus package.

While a breakthrough in negotiations may still not be a story for today, the news that President Trump is considering a capital gains tax cut to revive the jobs market may keep investor sentiment more upbeat. It will be worth monitoring the oil market developments, as crude is showing some good performance despite swings in global risk appetite and is facing a week packed with key releases. Should oil resilience persist, an oil-linked currencies' rally may prove more sustainable than other pro-cyclicals.



EUR: ZEW showing more sentiment improvement

The German ZEW survey will be the highlight of the day in the Eurozone. Our economists expect an improvement from -80 to -65 in the current expectation measure (consensus is centred around -69.5), although the expectations index may show a decline. A few points of surprise in the surveys will hardly make a big difference for the EUR, but the notion that sentiment in the EZ continues to improve may consolidate the 1.1750 level as a floor in EUR/USD today.

➔ GBP: Another jobs data surprise leaves markets unimpressed

The UK added 94.4k jobs in July with the unemployment rate holding on at 3.9%. Official jobs data continues to be insulated by the government's furlough scheme, but there is little doubt that the unemployment rate will creep higher as that scheme is gradually unwound, which explains GBP's muted reaction.

⬆️ CAD: Oil and positioning helping the loonie

The Canadian dollar was the best G10 performer yesterday: while the catalyst for the currency's strength was the good performance in crude, CAD has been showing some improved resilience to swings in global sentiment. One reason is that CAD is already facing an extreme net-short positioning – as much as 17% of open interest as per the latest CFTC data (here is our commentary on the topic). This possibly suggests less limited downside room to CAD in times of fragile sentiment. Incidentally, CAD is more protected to US-China tensions than its peers AUD and NZD. Momentum for the loonie may consolidate.

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