Uneasy calm in FX markets

The dollar continues to trade in a tight range near its highs for the year

Source: Shutterstock

USD: Dollar to hold onto gains as manufacturing sector returns to focus

The dollar continues to trade in tight ranges not too far from the highs of the year. Two key and related themes are supporting it: i) the US is less exposed to world trade and the manufacturing sector than many trading partners and ii) US interest rates (particularly at the short end of the curve) remain relatively high and after two cuts this year it is not clear if and when the Fed will cut again. Despite talk of 'constructive' and 'productive' dialogue between the US and China trade teams last week, markets have been disappointed too many times to assume that some kind of trade deal can be struck in October and instead will react to activity data and the scope for monetary and also now fiscal stimulus. On the US data calendar this week is Markit Manufacturing PMI data today (a surprise sub 50 reading could briefly hit the dollar) and then consumer confidence, new home sales, personal spending, PCE inflation data and durable goods orders through the week. The dichotomy between a strong domestic and weak external sector should continue, which probably leaves the dollar supported. DXY to remain supported in a 98.00 to 98.75 range. Also watch out for a speech by the Fed's John Williams at 1550CET.

EUR: Manufacturing PMIs in focus

With the scope for eurozone monetary stimulus nearly exhausted, the market is now closely looking at the scope for fiscal stimulus, especially German fiscal stimulus. Germany's four year, €54 billion climate change stimulus announced on Friday has yet to ignite the markets, with Bund yields slipping back from the highs seen mid-month. For today, the eurozone focus is very much going to be on the manufacturing PMIs for September, where another set of sub 50 readings is expected. Also look out for testimony from the European Central Bank's Mario Draghi at 1500CET today, where no doubt he'll call on policymakers for meaningful fiscal stimulus. Expect EUR/USD to stay soft near 1.10 and it could easily drift to 1.0925 again.

GBP: Johnson could be meeting Merkel in New York

Sterling has handed back some of its recent gains – largely because any suggestions of a new withdrawal agreement with the EU have lacked substance. Prime Minister Boris Johnson could be meeting German Chancellor Angela Merkel in New York early this week, but again we doubt some warm words can deliver a sustainable GBP rally. Equally, were the UK Supreme Court to rule the pro-rogueing of parliament illegal, we doubt it makes much difference – at least in the short term. We favour cable drifting back to 1.2380 through the session.

PLN: Oct 3rd is the date for the ECJ ruling on FX loans

The Polish zloty is again very much in focus now that the European Court of Justice has said that it will rule on the FX loan issue in Poland on 3 October. Please see our full story here.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer