USD bear trend: cocked and loaded

In light of the dollar breaking below the 200-day moving average on some key pairs, the path of least resistance remains lower for the US currency

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USD: Non-dollar, safe haven assets in demand

Since US-China trade relations broke down in early May and the Federal Reserve started to acknowledge the effects of the trade war on the US economy, the dollar is close to 5% weaker against the Swiss franc, 4% weaker against the Japanese yen and down against most G10 currencies except the pound. We therefore think the move is best characterised as a defensive decline in the dollar, which makes sense given uncertainties regarding trade tensions and now the Middle East as well. Recent moves are starting to resemble more the traditional flight-to-quality trends, such as moving to the liquid short-end of the US Treasury market and hedging the dollar exposure. Gold is also performing as it should – especially in an environment of super low rates. The major asset class outlier here is equities and were they to turn lower, the move should cement the trend for dollar shorts against the defensive JPY and CHF. Also it's not clear what can shake the market out of its view that the Fed will cut 25-50 basis points on 31 July (37bp currently priced). In light of the dollar having broken below the 200-day moving average on some key pairs, the path of least resistance remains lower for the dollar. Look out for US consumer confidence figures today and then a speech on monetary policy from Fed Chair Jay Powell at 19CET today. With the

President breathing down his neck, we doubt Powell is in a position to reject aggressive pricing of Fed easing.

EUR: EUR/USD holds above the 200 day m.a. near 1.1350

EUR/USD is holding the break of the 200-day m.a. near 1.1350 and will be creating a buy-on-dips mindset for investors. It's not clear from where the next geopolitical input will derive (does China ban rare earth exports at some point?), but Washington is certainly the epicentre right now. EUR/USD can make slow progress to 1.1450 & USD/CHF below 0.9700 could trigger fresh dollar sales.

GBP: Look out for CBI sales data later

GBP is trading weaker than we thought. EUR/GBP to trade in a 0.8875-09.8975 range.

HUF: NBH to err on the dovish side

CE4 currencies have generally been enjoying the world of lower rates and the positive turn in EUR/USD, although the Hungarian forint has recently been following its own path. This follows a big squeeze on short HUF positions which took EUR/HUF to 320 earlier this month. For today, the highlight will be the National Bank of Hungary decision. Our team thinks the NBH will err on the dovish side, adopting the view that inflation is peaking, fiscal policy is tight, the 3m Bubor rate is already higher than they'd like and a difficult external environment. We think the NBH meeting remains more a rate story now (and see rates in the three-year segment of the curve falling further as NBH tightening is priced out). And the more difficult external environment means the NBH credibility issues of exceptionally negative real interest rates fade and EUR/HUF should settle around the 325 area.

Author

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