Everything pointing the same way today

Dovish ECB, US GDP rebound, and global anxiety over the pandemic rising as Europe re-starts lockdowns - all of which temporarily eclipses any election concerns

For once it all looks clear...it won't last

Despite our house call for a generally stronger EUR vs the USD over the coming 12 months, that view doesn't have to play out on a daily basis, and today, it looks fairly likely to go the other way.

The main driver of markets today is rising anxiety over the rise in Covid-19 cases in Europe, which has reached such a point that Germany and France have both announced a month-long "circuit breaker", which tightens existing restrictions - though to my mind, still tries to achieve a trade-off between keeping the economy open, and squeezing the virus out, which has been tested in many places, and shown not to work. So good luck with that. If it doesn't work, the restrictions will only get tighter. The key policy indicator of failure here will likely be when schools are eventually closed.

So stocks have been selling hard, and the resulting market anxiety has been resulting in a flow back to the USD, which provides a temporary reprieve from the "sell USD on expected Biden win" view that had been prevailing.

Today's data may give the dollar's momentum some further push as we also have what is likely to be a fairly dovish ECB meeting ahead of what will look like some horribly negative Eurozone CPI data tomorrow. That said, our Eurozone team believe ECB President Lagarde lacks the communication clout of some of her predecessors, so hints of say a December "big bazooka" on policy may be wrapped in velvet in their delivery. We will see. Anyway, it is hardly going to provide much support for the Euro.

Then we have US advance 3Q GDP, (see this from our US team) which captures all the reopening that happened after the lockdown, and could also look pretty good. Of course, we know the economy has slowed down since, and may even have gone backwards in a few areas, but that's a story for another day. And these figures should also be USD supportive.

This line of thinking may get us as far as the weekend, or at least, Friday lunchtime before thoughts return to the US election.

Asia Pacific picture not so black and white

In the APAC region, the dollar's resurgence is most evident against the $-bloc currencies, especially the AUD, which at about 0.7060 is looking very soggy as we head towards next week's RBA meeting, and a decent chance of some further easing, though more likely QE than any further rate cuts (the market seems to think otherwise).

Korea's KRW also doesn't look too bad, though it has opened above 1135 this morning, but has probably had the blow softened by some decent business activity survey data out this morning from both the manufacturing and non-manufacturing sectors. Likewise, while the CNH has risen a bit over the last 24 hours, it isn't clear that it will continue to do so any more today. And as gravitational waves of the heavy Chinese currency tends to dominate the regions lighter currencies, this may dampen any broader Asian FX sell-off today.

Bond yields a bit torn

Bond markets are finding it also a two-sided story, so though the risk-off theme is dominating currently, with polls showing further Biden gains in some swing states in the US, thoughts are going to remain at least partly towards an early 2021 fiscal stimulus, with all that this entails in terms of increased bond supply. So bond yield declines may also remain muted before heading higher, as the election story comes to dominate again as we head towards the weekend and the final sprint to the finish for the candidates (that's a metaphor that doesn't really work for two septuagenarian, but time is short today...)

Bank of Japan today

Aside from the Korean data already out, Asia's calendar is relatively light, though there is a Bank of Japan (BoJ) meeting. The JPY is one currency in the region that has been gaining amidst all of the risk-off kerfuffle, which is entirely in keeping with its usual role as a safe haven currency. Again, I'm not sure this will last too long, and I'm also doubtful the BoJ will deliver any meaningful changes to their super-accommodative monetary stance at today's meeting. They usually don't.

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