FX View - The dollar is overbought but the euro still looks vulnerable

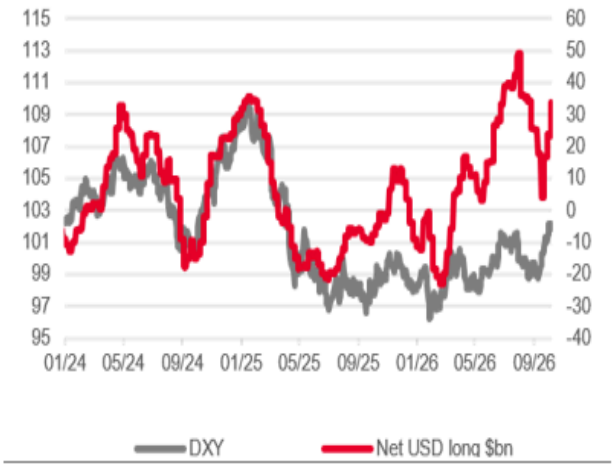
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The FX market is trying very hard to take a day off. The economic calendar is sparse, and there is little new news. The OAT-Bund spread is at the same level as it was on Thursday, having given back the improvement we saw on Friday. Brent crude, at $105.4/bbl, is still very high, but it would take a clear break above $110/bbl to get the wider market's attention. European equity prices and US futures are somewhat higher. In this regard, the backdrop could be seen as slightly risk-friendly and therefore marginally dollar-negative. And yet, DXY is just below last Monday's peak, while EUR/USD is just above last Monday's low. Given how long the futures market is on dollars, this is impressive, although I have been warned time and again not to trust anything that happens on a Monday morning in the FX market! My bias is to remain neutral today, while respecting the lopsided positioning.

In any case, the week's main non-geopolitical event comes on Wednesday with the release of US CPI. If we see a pickup in core inflation to 2.5% (the market consensus), there will be little chance of any shift in market expectations: no rate hike this month, but a very strong chance of one in December and another in Q1. I am watching EUR/AUD, which bounced after drifting below 1.64 this morning. There are plenty of arguments for shorting European currencies against the AUD (and the NZD). EUR/GBP, meanwhile, at 0.85, is a clear indicator of the negative sentiment surrounding the euro and is more interesting to watch than to trade at this level. Even a technical analysis illiterate like me can see that EUR/CHF is in a very interesting place at the moment. Proper charting is available in the Proper charting is available from the Corporate Morning Briefing but even from my naïve perspective, I can see that the EUR/CHF downtrend in recent years, seen bounces the pair reached 1.15, 1.05, 1, 09,.95 and now, 0.9.

Tanmay fears a fresh fall if 0.94 holds on the upside. Given the market's shift towards using the CHF as a funding currency instead of the yen, a break lower, and particularly a break below 0.90 in EUR/CHF, would surely put the SNB in a bind. Rates are at zero at a time when almost everyone else is tightening monetary policy. Therefore, if the current strategy of holding the currency back fails, we may have to turn our attention to EUR/CHF 0.85. The franc is absurdly expensive, but the geopolitical backdrop remains franc-friendly. I shall watch from the sidelines: a bull on a clear break above 0.95, and a bear on a clear break below 0.90.

The market is VERY long USD at the moment



Source: SG Cross Asset Research/Forex

EUR/CHF is in a very interesting place





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