Market Overview

Update

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- **Dollar Buyers Beware**

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Dollar Buyers Beware

The recent uptick in market risk sentiment has been a veritable boon for dollar buyers in general and Irish importers (from the US) in particular as the value of the dollar continues to slump against most major (G10) currencies. As markets continue to digest the ramifications of the Feds tweaking of their monetary policy mandate, moving to 'Average Inflation Targeting' (AIT), announced late last week by Fed Chair, Jay Powell at their annual Jackson Hole Symposium. Equity and commodity markets have both rallied and the greenback has been on the back foot since Mr. Powell all but confirmed that US interest rates will remain 'lower for longer' as the Fed seeks to average out inflation at 2%.

Yesterday afternoon, after what seems to be a relentless speculative dollar sell off the benchmark EUR/USD rate eventually jumped over the pivotal $1.20 level, for the first time in over two years. According to official data from the Depository Trust & Clearing Corporation, markets have just witnessed the second busiest August (since records began) for EUR/USD vanilla options the majority (64%) of those contracts were targeting a higher EUR/USD rate.

A word of warning to dollar buyers however; In the short term there are some reliable market rumours of several large barrier options lurking in the $1.20/$1.22 region, this in tandem with some very strong (longer term) technical resistance levels in/around the same $1.20/$1.22 levels should keep any sharp moves higher contained, for the time being at least.

We will also have to be mindful of the EUR side of the equation; On Tuesday (1 September), former Central Bank of Ireland Governor and now ECB Chief Economist, Philip Lane, hit the wires saying that "the euro-dollar rate does matter." It is rare to see an ECB board member comment publicly on the value of the single currency but a near 10% increase in the value of the euro against the greenback in just over three months is obviously raising a few eyebrows in Frankfurt, particularly following the truly dismal European inflation data earlier in the day.

Mr. Lane's comments probably served two distinct purposes, firstly to try and put the brakes on what has been a sharp (almost) one way move in the EUR/USD rate and secondly to remind markets that there is an ECB monetary policy meeting next week and that an unattractively low CPI (-0.2% versus +0.2% forecast) print and an equally unattractive high EUR/USD rate will definitely be part of their discussions. As European markets opened this morning (2nd Sep) the EUR/USD rate is nearly a cent and a half lower from yesterday's $1.20 highs, a successful day's work for Mr. Lane I would have thought.

Given that the ECB are chained to their 'price stability' mandate of striving to keep the annual inflation rate "below but close to 2%", ECB President, Christine Lagarde, would be well within her remit to try and out dove an already very dovish Fed in order to at least attempt to shift the all-important EUR/USD rate lower to a more acceptable, exporter friendly range. Similar to the Fed, the ECB are also in the throes of a monetary policy review and any mention or reference (at next Thursday's meeting) to the fact that the ECB are, like the Fed, considering an AIT tweak to their mandate, the single currency will fall.

In the more medium term we have the US Presidential elections in early November. Democrats, while not viewed as particularly anti-business, they are perceived to be less 'pro-business' as the Republicans and US Presidential nominee, Joe Biden, has been vocal on going after the big Tech companies from a tax perspective and there's also talk of reversing Trump's corporate tax cuts to bring the rate back to 28% from the current 21%. A doubling of the US minimum wage from $7.50 to $15 has also been mooted. While early polls are suggesting that Mr. Biden has a reasonably comfortable 8%/10% lead, if that lead starts to slip/narrow as we near the November election date, we could see this rhetoric ramp up significantly in order to appeal to the more left leaning democrat voter. Whether Mr. Biden follows through with his campaign promises is another story but US stock markets won't like hawkish tax talk and we may very well see another significant equities slump ahead of the election which could very well push investors back into the safe haven embrace of the dollar. The average EUR/USD rate over the last five years is $1.15, that's working off a low of nearly $1.03 in March 2017 and a high of just over $1.25 almost a year later in February of 2018. With all that in mind, dollar buyers would be remiss to ignore what is now beginning to look like a very attractive $1.19/$1.21. EUR/USD range.

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