Loonie at the mercy of broader market dynamics

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CAD

The loonie stood out among the bunch in yesterday's session as it was the only G10 currency to make inroads against the US dollar. As mentioned in yesterday's morning report, the Canadian dollar was likely to find a source of strength if both US equity markets and crude oil markets recovered from Monday's rout. That was in fact the case, especially after the US cash open saw equity markets follow the cues given to them by futures trading to retrace much of Monday's decline. This enabled the loonie to retrace over half a percentage point against the dollar, and thus halve Monday's decline that saw the Canadian currency fall to a fresh 5-month low. With S&P 500 futures trading slightly lower this morning and oil sitting under a bit of renewed pressure, the Canadian dollar is trading in line with the rest of the G10 market as traders continue to pile into the dollar. However, this may change once North American markets come online this afternoon. This reversal in broad market price action once US investors enter the market has been a visible dynamic thus far this year and it could come to the rescue for the loonie. With little on the data calendar in Canada too, the focus for USDCAD will remain on broader market dynamics.

USD

For G10 FX markets yesterday it was a case of more of the same, with the US dollar firming across the board, even against the Japanese yen this time. The Canadian dollar was the only currency this time within the G10 to make inroads against the dollar, largely because of the huge losses it sustained on Monday and a stabilisation in oil prices. However, cross-asset price action wasn't as definitive as it was on Monday, with US and European equity indices bouncing and the 10-year Treasury yield also returning back above 1.2%. Meanwhile, EM FX also enjoyed a welcome respite with high-yielding currencies such as BRL and RUB leading the charge. The mismatch in market pricing across the board is likely why FX markets continue to find refuge in the US dollar as multiple uncertainties still linger around the global macro outlook and the future for developed market monetary policy. This morning, with little scheduled in the data calendar, markets have found comfort in resorting back to yesterday's playbook with the dollar remaining robust against G10 FX markets.

GBP

The pound has dropped nearly two percentage points against the US dollar over the course of the last 5 trading sessions. The decline has largely been driven by Covid-19 concerns, both domestically and internationally, suggesting the latest price action could be reversed once these concerns abate. For now, however, the pound remains under pressure with today's renewed dollar bid pushing GBPUSD down towards yesterday's session low. Despite political events, which are centred on the UK's clash with the EU over renegotiating the Irish sea trade border and Dominic Cummings' dismay for the current UK government, events in the UK are fairly light today. This places the emphasis for the pound on broader market developments, which look to favour a further bid in the US dollar as things currently stand.

EUR

With headlines around the eurozone being sparse, the euro was left at the mercy of broader US dollar moves over the course of yesterday. Because of the continued risk-off market mood, this translated to a fresh 3-month low in EURUSD before the pair slightly recovered. This morning's price action is not much different, suggesting that more is needed to change risk sentiment ahead of tomorrow's European Central Bank decision. The prospect of a dovish ECB tomorrow may limit EURUSD upsides ahead of the meeting, while other procyclical currencies such as SEK and NOK may pare back losses somewhat against the euro after these currencies saw particularly significant losses this week.

APAC

The Aussie dollar led losses after it was weighed down by stricter lockdown restrictions and a weaker-than-expected retail sales print. South Australia joined Victoria and New South Wales in ordering residents to stay at home, meaning half of Australia's population is now back in lockdown. South Australia will impose Australia's strictest lockdown since the start of the pandemic, with residents ordered to stay within 1.5 miles of their homes and comply with a 6pm curfew as the delta variant leaks across the country. Victoria extended its lockdown today by another week and effectively shut its border to Sydney. The recent lockdown measures have dragged on retail sales, as preliminary data suggests they fell 1.8% in June from the previous month, overshooting the consensus of a 0.7% drop. On an annual basis, overall sales were up 2.9%. Consistent with previous lockdowns, the largest declines occurred in cafes, restaurants, clothing, footwear and personal accessory retailing. With lockdown measures being extended throughout the country, the progression of the domestic outbreak will continue to be in focus for FX markets along with the impact the tightening of restrictions has on incoming data.