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FX

FX Daily: Porridge cools for goldilocks

A slightly cooler run of US data recently has cut the chances of a Fed hike in September. Lower short-dated US rates and a mildly weaker dollar are supportive for the risk environment and will keep summer volatility levels subdued. Barring an upswing in geopolitical risks, it is hard to see the scheduled events calendar this week upsetting this view

A run of slightly cooler US data is weighing on the dollar and proving supportive for risk assets

USD: Softer run of data continues

Friday's release of a softer set of US retail sales data for July has added to the case against the Federal Reserve hiking rates in September. Just 7bp of hikes are now priced at that meeting, and expectations for a 50bp tightening cycle into next year have been scaled back to 35bp. Global risk markets are enjoying the fact that the Fed can leave rates unchanged a little longer, and investors seem happy to continue targeting long carry trade and long commodity stories at the expense of the low-yielding Japanese yen and Swiss franc.

Looking at the US data calendar this week, it is hard to see much changing. The highlight could be Wednesday evening's release of the minutes of the 29 July FOMC meeting. This was the meeting that saw a 9-3 vote for unchanged rates and a confusing press conference, which saw longer-dated Treasuries sell off. Given that we've seen slightly cooler activity data since that meeting, we think it will be hard for the market to switch back to a fully hawkish mindset if there are a few sentences in the minutes pointing to a closer call on the unchanged rates decision than most think.

DXY is exploring the lower end of a 99.40-100.00 trading range and can probably trade to the soft side all week as investors focus on higher-yielding and procyclical currencies.

Chris Turner

EUR: Exploring the upside

Friday's further drop in short-dated US rates is helping EUR/USD reconnect with the short-term fair value identified by Francesco Pesole on Friday. It is currently pressing intraday resistance at 1.1585, above which 1.1650 is the outside possibility in quiet trading conditions. Even though the euro is far from a high-yielder, it seems international investors like the eurozone as a diversification play against the US AI boom. We will be interested to see whether the eurozone June current account data (released Wednesday) continues to show very strong demand for eurozone debt and equity markets. This flow is currently running around €1tr on a rolling 12-month basis.

On the eurozone calendar this week are European Central Bank speakers and Friday's release of the flash PMIs. These are probably euro-supportive.

Chris Turner

GBP: Bigger week for UK data

After a quiet few weeks, the UK data calendar picks up. Jobs and wage data are released tomorrow, and then the July CPI figures on Wednesday. Our UK economist, James Smith, thinks that the data will not be strong enough to support the 55bp of Bank of England tightening still priced into UK money market curves. If so, EUR/GBP should have an opportunity to work its way back to the 0.8575/85 area.

Additionally, recall that the suspicion of faulty seasonal adjustments means that UK activity data typically comes in softer in the second half of the year than the first. We are still hanging on to slightly negative sterling views, even though M&A inflows may be providing temporary support.

Chris Turner

CEE: Hawkish rates support FX recovery

The second half of the month is typically quieter in CEE, and August’s seasonal slowdown, combined with fewer central bank meetings, should reinforce that pattern. This leaves secondary data and geopolitical developments as the main focus this week. Today, the Czech Republic releases July PPI data, while Thursday’s Polish activity figures should be more relevant for markets.

With no National Bank of Poland meeting in August and the governor sounding dovish back in July, investors have shifted their attention to recent economic data and inflation moving back above target. This week's wage, industrial production and PPI releases could provide fresh direction. Although the governor flagged a possible September rate cut at the July meeting, market pricing has turned more hawkish and now almost matches Czech rate expectations, with around two longer-term hikes priced in.

Regional markets stabilised on the hawkish side last week, with more hikes priced in for the Czech Republic and Poland and less easing expected in Hungary. Higher market rates have helped cap FX weakness, allowing regional currencies to recover some ground. Together with a softer US dollar, these relatively supportive conditions should continue to filter through CEE markets this week.

EUR/CZK is gradually moving below 24.200, in line with our earlier expectations, and we still see 24.150–24.200 as the new landing zone. The zloty has underperformed somewhat, but given the stronger move in Polish rates, we still see scope for EUR/PLN to break below 4.300.

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