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FX Daily: Introducing the Bessent Put in Treasuries

For many years, the market spoke of a Greenspan Put in equity markets, where investors were protected from much lower stock prices by the assumption that the Fed would cut rates. Yesterday s intervention in the Treasury market suggests the recent rise in longer-dated yields has touched a raw nerve. Risk assets are enjoying this more activist US Treasury

Washington's intervention in the bond market is welcomed by risk assets and is weighing on the dollar

USD: Investors greet a more interventionist Treasury

While increasing liquidity buy-back operations by $2bn might seem like rearranging deckchairs on the Titanic given the US national debt of $40tr, yesterday's intervention by the US Treasury has been warmly greeted by investors around the world. As ING's Padhraic Garvey writes, this unscheduled announcement tells us the Treasury's displeasure with the recent sell-off at the long end of the bond market. Clearly, a more structural solution such as fiscal consolidation is required for a more sustainable recovery in the bond market, but news that the US Treasury is going to be more vigilant about the long end has been welcomed.

The 10bp drop in longer-dated US yields has lifted equities and seen the dollar soften, especially against high-beta currencies such as the Norwegian krone, New Zealand dollar and Swedish krona. The Bessent Put – or someone to watch over the US Treasury market – reduces one of the key threats to risk assets this summer and should see carry trade strategies remaining popular.

At the same time, the minutes of the July FOMC meeting were not particularly hawkish and short-dated US yields actually fell 5bp after the release. This all leaves the dollar in a flat/lower pattern consistent with a 'Risk-on, Dollar-off' investment environment – EMFX typically does well at times like these.

For today, the US data calendar is light, and we will hear from two Federal Reserve hawks: Mary Daly, who voted for a hike in July, and Alberto Musalem, a non-voter.

DXY unexpectedly broke down from its 99.40-100.00 range yesterday and can probably drift lower to 98.65. The next stop would be 98.00 should risk assets build another leg higher on this more activist US Treasury.

Chris Turner

EUR: Pro-cyclical currencies get a boost

EUR/USD broke higher yesterday on the US Treasury news, which could usher in a slightly more encouraging, or at least stable, investment environment. Ever-higher natural gas prices in Europe remain a worry, but investors are thinking about another bearish dollar leg emerging, with EUR/USD playing its part.

Behind the scenes, foreigners are also buying a lot of eurozone debt and equities. Data released by the European Central Bank yesterday showed that foreigners have bought around €1.1tr of eurozone securities over the last 12 months. And June saw the largest ever monthly purchases of debt at €200bn. Thus, the bullish euro narrative of diversification away from the US remains present.

Yesterday's US intervention has brought EUR/USD close to our end-September target of 1.17. Resistance at 1.1700 may be a tough nut to crack in the short term, but if so, 1.1790 beckons. Support may be found as close as 1.1650/60. Also, a reminder that we consider European asset managers underhedged on their US investments.

Chris Turner

SEK: Riksbank unlikely to turn too hawkish

Sweden's Riksbank meets to discuss interest rate policy today. No change is expected to the 1.75% policy rate. There is no new Monetary Policy Report and therefore no new forecasts. This probably means that June's assumption of a rate hike towards the end of the year remains valid. The market prices a 25bp hike for the November meeting.

It is not clear that the Riksbank needs to sound a lot more hawkish today – and doing so would be a surprise given the September meeting is priced at just a 40% chance of a hike. While a pro-risk environment is good for the krona, its risk-adjusted carry is quite low by G10 standards, and we doubt it should lead the charge against a weaker dollar. Overall, we have a 10.90 EUR/SEK target for end-September, but doubt EUR/SEK needs to move much today.

Chris Turner

CNY: Authorities happy to allow a stronger yuan

USD/CNY continues to trade lower as authorities deliver lower fixings and the yuan participates in this mini-renaissance for Asian FX. We discussed the Korean won in this space yesterday. The onshore USD/CNY is trading at its lowest levels since February 2023 and looks intent to test the 6.69 area, which we see as the lower end of this year's trading range. Driving these yuan gains, we presume, are Chinese exporters who have found increasing confidence in the yuan while losing confidence in the dollar.

The move will be well appreciated by the US Treasury as part of the Mar-a-Lago mindset.

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