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FX

FX Daily: Much ado about buybacks, softer dollar

This week's US Treasury intervention in the bond market has caused much furore amongst the buy and sell-side financial community alike. We see the move more as a signalling tool that the US Treasury has a problem with high bond yields and wants to address it. For the time being, we favour this triggering a benign, risk-friendly dollar decline



Most paths lead to a weaker dollar; we prefer the pro-risk route

↓ USD: Most paths favour a softer dollar

Many commentators seem to be treating this week's US Treasury intervention in bond markets as a heinous financial crime. We prefer to take the view offered by a former US Treasury official interviewed in the Financial Times today that this was a [signalling exercise](#). Yes, these buy-back operations were originally designed to address market liquidity issues and the off-cycle nature of the adjustment has raised eyebrows. But the main takeaway has to be that higher longer-dated Treasury yields are firmly on the Treasury's radar and need to be addressed. US Treasury Secretary Scott Bessent suggested yesterday that there might be some new fiscal consolidation plans incoming. These could centre on a task force to cut back on fraud in the same way that Elon Musk's DOGE tried to cut back on government spending. Most are sceptical that this will make any dent in the near 6% budget deficit, but let's see what

is announced.

For the dollar, quite a few are comparing this week's Treasury buybacks to President Donald Trump's 'Liberation Day' tariffs and concluding this again undermines US policy credibility. During that period in April 2025, the Swiss franc, the euro and the yen led the charge against a weaker dollar. We see this week's developments less as a policy credibility story and more as a soft dollar, pro-risk story if the US Treasury is taking a greater interest in protecting the long end. That probably means a gentler dollar decline and some outperformance of high-beta commodity currencies and emerging market currencies in general. If we're wrong and Treasuries and equities start selling off hard, then the story would revert to a lower USD/CHF, higher EUR/USD and high-yield FX selling off as volatility rises.

On today's US calendar are the S&P PMI readings for August – all expecting continued expansion in activity.

DXY has support in this 98.65/70 region and will probably struggle to make it back above 99.00 now.

Chris Turner

EUR: US fiscal consolidation would be EUR/USD positive

EUR/USD remains well supported, and, as above, we favour the kind of benign decline in the dollar that tends to float all boats. Not that anyone is expecting it, but should some true US fiscal consolidation emerge, the combination of tighter fiscal policy and looser monetary policy would be dollar-negative. Fiscal consolidation seems unlikely though, with Washington wanting to spread its pro-growth mindset to the entire G20 when finance ministers and central bank governors meet later this month.

Today's eurozone data calendar focuses on the August PMIs. For the eurozone as a whole, these are expected to indicate a continued mild expansion and one which supports another European Central Bank hike in September. There will also be focus on the ECB's Consumer Expectations Survey, where three-year inflation expectations reached 3.0% in March and are expected to remain elevated at 2.8%.

With emerging market currencies performing well, we prefer a continued gentle rise in EUR/USD. High natural gas prices remain a concern, but since the eurozone economy seems to be coping with these better now, EUR/USD can focus on the soft dollar story.

EUR/USD can consolidate in a tight 1.1670-1.1710 range today, before potentially edging higher.

Chris Turner

↓ CHF: This is not April 2025

Wednesday's US Treasury announcement on buy-backs saw USD/CHF lead the dollar lower. This recalled events of April 2025, when concerns over policy credibility hit all US classes and the dollar and the Swiss franc were preferred. Our take on this week's events is different. We think the sharp sell-off in USD/CHF was driven by position adjustment after the June narrative of a more hawkish Fed had favoured USD/CHF longs.

If we're right that greater interest in protecting the Treasury market is more a risk-positive story, then volatility will stay low, and interest will remain firm in the carry trade. Here, we think the Swiss franc rather than the yen will increasingly become the preferred funding currency and send EUR/CHF back to 0.9400. We are encouraged by the EUR/CHF bounce back above 0.9350 since Wednesday.

Chris Turner

↑ ZAR: External environment helps rand

Our softer dollar, pro-risk environment favours high-yielding commodity currencies like the rand. The rand normally has a decent correlation with the Chinese renminbi, which is performing quite well along with large parts of Asian FX. We can see USD/ZAR pressing the April low at 15.92 and then perhaps testing the 15.75/80 area. One area of concern for the rand later this year, however, could be El Niño, where drought conditions could cause some major problems.

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