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FX Daily: Keeping an eye on the long end

At the end of a quiet week in FX, the highlight today is a speech from Fed Chair Kevin Warsh at the Jackson Hole symposium. Given that financial innovation is the theme of the event, there are no guarantees he ll go anywhere near monetary policy today. However, FX markets and risk assets in general will take their cue from how long-dated Treasuries perform

Fed Chair Kevin Warsh takes the stage today at the Jackson Hole Symposium

USD: Will Warsh go near monetary policy today?

It has been a quiet, risk-positive week for global asset markets. Volatility remains low and the picture in G10 FX has been mixed, with certainly no follow-through on the dollar debasement theme which returned last week. The FX market expects little from Kevin Warsh today, with a one-day USD/JPY straddle pricing around a 35 USD pip range today. On Warsh, he speaks at a symposium dedicated to financial innovation and is immediately followed by speakers on tokenised finance and payment innovation. He has a 30-minute slot at 1600 CET/10ET today and there is no Q&A. It may well be that he avoids any discussion of monetary policy whatsoever and is quietly contented with market pricing of a Fed September hike having slipped back to 8/9bp. If he does go near monetary policy, expect a reiteration of a Fed commitment to monetary policy – especially after his performance at the July FOMC unnerved the long-end of the Treasury market.

We suspect FX markets will take their cue from long-dated US Treasuries today. If somehow a hawkish read emerges, then the dollar can advance against the low-yielders of CHF and JPY. If Warsh underestimates the mood at the long-end of the market and 30-year Treasury yields spike back towards 5.30%, higher volatility will see higher-yielding carry currencies underperform and probably CHF start to outperform again as it did briefly last week.

Coincidentally, at the time as Warsh is speaking, the Bureau for Labour Statistics announces its annual nonfarm payroll benchmark revisions. Consensus expects a close to +200k revision, versus a prior revision of -911k. Any surprises here could be noteworthy. But on the subject of US macro and the Fed, next week should be much more illuminating, given all the jobs data releases, the Fed's Beige Book and a moderated discussion with Chris Waller next Thursday.

We presume Warsh will do his utmost to avoid upsetting the bond market today – perhaps by avoiding monetary policy altogether – and see DXY trading in a quiet 99.00-99.30 range.

Chris Turner

EUR: Gas and French bonds may be weighing

EUR/USD has softened a little this week despite encouraging eurozone data, hawkish ECB commentary and a relatively supportive risk environment. Perhaps holding the euro back has been natural gas prices pushing close to EUR70/MWh and some more belligerent commentary out of Russia. Certainly, the CEE FX complex seems to have taken note of the potential for escalation in the conflict, with investors preferring to scale back heavily overweight positions in Hungary.

On France, our rates strategy team are focusing on French-German bond spreads staying near recent wides as the French presidential campaign gets underway. Marine Le Pen, running on a ticket of fiscal austerity, is still far ahead in the opinion polls, but French debt has yet to respond. There does not seem to have been a clear winner in the first of the TV debates which took place last night.

There is quite a busy eurozone data calendar today, of which French and Spanish August inflation is probably the highlight. Rising headline and perhaps core rates too can keep another 50-60bp of ECB tightening priced into money market curves and probably keep the euro supported.

46 USD pips are priced by the FX options market for the EUR/USD range today. A 1.1620-1.1665 range is possible if Warsh avoids rattling the bond market and conditions remain calm.

Chris Turner

KRW: Onwards and upwards

The Korean won continues its advance. The driver this week has been back-to-back rate hikes from the Bank of Korea, with the policy rate now a reasonably high 3.00%. The Bank of Korea has its own, Fed-like, Dot Plot. The median expectation is for the policy rate to reach 3.25% in six months' time. The good news is that rate hikes are not only being driven by above-target inflation, but by broadening and strengthening growth prospects. GDP forecasts have been revised substantially higher for 2026 and 2027 as the chip export boom filters across large parts of the economy.

However, KRW/JPY has quickly returned to the highs seen in 2023/24. This might be a problem for Korean authorities fearful of Japanese competition in third markets. Yet having suffered such a weak won for so long, we suspect local authorities will be prepared to tolerate current strength. There is an outside risk to 1350, but USD/KRW has come a long way in a short space of time and is probably due some consolidation.

Chris Turner

BRL: Presidential polling in play

It has been a positive environment for the carry trade, but what has also been helping the Brazilian real this week has been an opinion poll showing that President Lula's lead over Flavio Bolsonaro has dropped to just one percentage point. Bolsonaro is running on a ticket of fiscal consolidation and hoping to emulate the victory of Colombia's Abelardo de la Espriella this year, which has been greeted warmly by local asset markets.

The first round of the Brazilian presidential election takes place on 4 October. Expect USD/BRL to be bounced around by polling results before then. But with 12% implied yields through the forwards and the chance of a regime change, we suspect the real can continue to comfortably outperform the steep forward curve.

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