

Fed on track to tighten

Minutes from the Federal Reserve's last meeting point to a rate hike next month



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USD: The Fed on track

The Fed minutes underlined the current hawkish FOMC bias and reiterated the committee's gradual approach to interest rate increases. In addition, some members expressed concerns about the potential limits of policy effectiveness stemming from the zero lower bound (ZLB), with staff projections suggesting a meaningful risk of zero interest rates being hit during the next decade. Such concerns support the approach to hike rates to move further away from the ZLB and build a war chest for rainy days.

EUR: Eurozone PMI to keep EUR/USD close to 1.1600

We look for stable eurozone August PMIs today. While not a game changer for near-term EUR/USD prospects, in the current short squeeze EUR/USD environment (as USD softened following President Trump's comments about the US dollar) this should be enough to buy some time for EUR/USD to remain close to 1.1600 today. We also note that despite the recent spike in EUR/USD higher, the cross continues to trade with a persistent (during the last two months) risk premium worth around 2%. This should also provide some very near-term cushion to the euro.

SEK: More risk premium to be built into SEK

In Sweden, the July unemployment rate is expected to decline. Yet, we look for the Swedish krona to remain under pressure ahead of the September elections. [As per Swedish elections: Muddy waters](#), although EUR/SEK has been showing a degree of risk premium, it is not extreme and is still below the February to May 2018 highs. This suggests that the krona may experience more weakness in response to the likely hung parliament result and the accompanying uncertainty. In the relative value space, we continue to favour long NOK/SEK positions as (a) elections will weigh on SEK and (b) a Norges Bank rate hike in September will support NOK. NOK/SEK to break above the 1.10 level next month.

RUB: Under attack from all sides

The rouble has found no support from the weaker dollar environment and instead the [fear of more aggressive US sanctions](#) against Russia has become more widespread. The bearish narrative of further US sanctions has only been fuelled by reports that Microsoft has been seizing web domains which could have been used to influence future elections. From the Russian side, authorities had to cancel a scheduled debt auction yesterday but somewhat surprisingly have re-started the [Ministry of Finance's FX buying operation](#) as part of the fiscal rule. The Min Fin had suspended this for six days during the worst of the recent emerging market sell-off, but its resumption suggests the government isn't overly concerned by rouble weakness so far. 70 beckons for USD/RUB short term and likely higher into November US mid-terms.