

## FX: Back to the Fed

We think tonight's Fed minutes could come across as dovish



How far will Fed Chair, Jerome Powell, push back market expectations?

### ➔ USD: Back to the Fed

Market focus returns to the Federal Reserve over the next few days, where tonight sees the release of the 31 July FOMC minutes and Friday sees Fed Chair Jerome Powell's opening speech at the Jackson Hole symposium. The minutes should shed some more light on what Powell meant with his comments that the July cut was a 'mid-cycle adjustment' – comments that were greeted poorly by risk assets. We imagine the minutes will come across as dovish and it will be interesting to see whether we start to see any mention of the dollar here – ie, that a strong dollar is delivering a tightening of monetary conditions, or preventing easier monetary conditions coming through. Ahead of the minutes, we should see a decent July existing home sales figure, which at some point should pick up on the back of lower mortgage rates. The dollar is still very strong and the collapse in US rates has had little impact on it so far – largely because the rest of the world is under pressure. We would not chase the dollar higher, but equally the Fed and Washington are going to have to work very hard to get it lower. DXY to trade 98.00-98.50 range.

### ⬇ EUR: Italian hangover

Italian Prime Minister Giuseppe Conte tendered his resignation yesterday evening drawing the Italian populist coalition to an end. Conte attacked Deputy Prime Minister Matteo Salvini in a speech to the Senate saying that it isn't in Italy's interests to hold elections every year, cementing expectations of a new coalition pact between the left-wing Democratic Party and the Five-Star

Movement. This prospect has kept Italian bond prices supported. Having said this, it remains to be seen whether this would translate into a snap election (likely in October) or an alternative government. While the former currently seems as the most negative outcome for the euro (see [Three political scenarios for Italy](#)), negative spillovers into the euro stemming from European politics have been limited recently. All said, Italian political uncertainty, plus the prospect of an ECB easing package should keep the euro soft on the crosses & EUR/USD should stay offered in a 1.1025-1.1125 range today.

## ↓ GBP: Boris in Berlin

The baseline view has to be that PM Boris Johnson leaves Berlin empty-handed today after meeting with German Chancellor Angela Merkel and that a No Deal Brexit is cemented as a central scenario. Cable should stall in the 1.2200/2220 area before breaking sub 1.20.

## ➔ CAD: On the lookout for easier BoC policy

Canada sees July CPI data today and markets will be sensitive to a low figure, which could bring forward expectations of Bank of Canada easing. The market prices 20 basis points of BoC easing over the next three months and it may be hard for the central bank to resist if the rest of the world is cutting. Any soft CPI print could send USD/CAD above 1.3350.

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