FX Daily: A busy day ahead of Jackson Hole

While the People's Bank of China continues its battle to keep the USD/CNY under 7.30, markets will take a close look at PMIs today. The main focus will be on the eurozone – Germany in particular – and the UK. In the US, Nvidia's quarterly results are seen as pivotal for the AI-led equity run

The Federal Reserve's Jackson Hole symposium later this week looms large for markets

USD: Nvidia results in focus

The Jackson Hole Economic Symposium starts tomorrow and should become the overwhelmingly predominant driver for currency markets. For now, investors are keeping a close eye on China and how effectively Beijing is defending its own currency. The 7.30 level in USD/CNY has emerged as the discomfort level for Chinese authorities, and a full session below that mark yesterday and overnight has prompted some optimistic calls that the worst is past us for the yuan's mini currency "crisis". It seems a bit premature, but the intent from the People's Bank of China (PBoC) to put a line in the sand at 7.30 is now clear, and would admittedly require another substantial deterioration in sentiment to accept a higher barrier for the pair.

USD/CNH drops normally bring the dollar lower across the board. For now, the renminbi is stable rather than truly rebounding, which allowed a small EUR/USD drop yesterday. Markets will be looking at PMIs across developed economies today. The surveys have a larger market impact in European markets but have recently also been looked at with interest in the US, where consensus is expecting few changes from the July read. New home sales are also on the calendar.

Another event to keep an eye on today will be the release of quarterly results from Nvidia. The firm is a key player in the AI space and some see today's results as a key turning point for the recent AI-led equity rally. The impact will likely extend to the currency market. Still, with Jackson Hole kicking off tomorrow and the material risk of Fed Chair Jerome Powell reiterating a hawkish message, any dollar bearish trend may struggle to find solid momentum.

Francesco Pesole

EUR: ECB cannot ignore PMIs

Any forward-looking economic indicator is, at this stage, quite important for the euro and the European Central Bank. The bank is officially fully focused on inflation, but evidence of a slowdown in key parts of the euro area has mounted and is now too blatant to be overlooked. Core inflation dynamics will still remain the main input for the ECB – but should we see more indications from today's PMIs that the eurozone outlook is deteriorating, then policymakers might see the window for one last hike closing rapidly and opt for a September hike rather than delaying it until the fourth quarter.

The focus will also be on Germany's PMIs. Manufacturing is expected to have flattened in August at 38.8, and services to have declined modestly to 51.5. Overall, the eurozone numbers are not expected to show any further material deterioration. Later today, the euro area consumer confidence will also be published.

EUR/USD came under pressure yesterday and unless we receive some encouraging news from PMIs, or a drop in the dollar (e.g., caused by an equity rally after Nvidia results), we suspect markets may marginally prefer to stay bearish on the pair as for some pre-Jackson Hole positioning.

EUR/USD is testing the early-July 1.0834 low this morning, a break lower puts the next support at 1.0800 (200-day MA).

Francesco Pesole

GBP: Volatile pricing ahead of PMIs

Bank of England rate expectations have been quite volatile since the upside surprise in wages and CPI last week. The miss in retail sales on Friday saw peak Bank rate expectations as measured in the Sonia rate drop more than 10bp. Markets are currently looking at 5.95-6.0%, but today's PMI release in the UK may well move pricing again.

Consensus is expecting some slowdown in both manufacturing (already in contraction territory) and services (to 51.0). The Bank of England will also look at the details of the survey searching for evidence that price pressures are abating.

EUR/GBP can make another attempt at breaking 0.8500 today, although the sustainability of sub-0.8500 levels is questionable unless markets price in more rate hikes in the UK or price out tightening in the eurozone.

Francesco Pesole

SEK: Enjoying a breather

The Swedish krona is emerging as an outperformer this week without any clear domestic driver justifying its strength against peers. EUR/SEK had risen above 11.90 and eyed 12.00, reaching new highs last week, and we suspect this week's correction is primarily technically driven.

News on the troubled landlord SBB continues to worry investors, although at these levels, SEK is pricing in quite a good deal of domestic risks. Incidentally, the housing market has shown signs of stabilisation, which might leave slightly wider manoeuvring room for the Riksbank to deal with high inflation.

Keep a close eye on today's Nvidia quarterly results. SEK is generally the most correlated G10 currency with US tech stocks. A disappointment on that side could trigger another EUR/SEK rally, even though some EUR softness is now helping put a cap on the pair. For the moment, a break above 12.00 is not our baseline scenario, and we see instead greater chances of a gradual – although bumpy – decline in the pair into year-end.

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