

## FX Daily: A quiet day ahead of Jackson Hole

The Jackson Hole Symposium kicks off tomorrow, and while PMIs sent grim signals on the economic outlook, markets are broadly holding on to their hawkish expectations. We think the post-PMI dollar correction may be fully reversed today, but a quiet calendar across major markets suggests a potentially calmer environment



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### USD: Shrugging off the post-PMI correction

Amid an abundance of rather dismal PMIs in major Western economies, the dollar suffered a correction yesterday as activity surveys showed a big slump in the service sector. The market reaction relates to markets pricing in a grimmer economic outlook in Europe than in the US, so that bad data tends to have an asymmetrically larger impact on US-growth-sensitive assets. In FX, the dollar's overbought condition makes it naturally vulnerable to some position-squaring downside risks.

That said, we are not surprised to see the post-PMI FX moves being quite short-lived (the dollar recovered overnight), as the macro picture and solidly hawkish expectations ahead of Jackson Hole should keep the dollar broadly in demand. The quintessential lack of attractive alternatives – especially in Europe – means that DXY can still reach 110.00 by the end of the week if Fed Chair

Jerome Powell sounds convincing enough in sticking to his hawkish message on Friday.

On the data side today, some focus will be on durable goods orders for July, which should however have limited market implications. There are no scheduled Fed speakers before the Jackson Hole Symposium kicks off tomorrow.

*Francesco Pesole*

## ⬇️ EUR: Bearish bias persists

Despite yesterday's rebound, EUR/USD remains undervalued by around 5% according to our short-term fair value model. As we've highlighted on multiple occasions lately, the risk premium on the pair can linger for several months as it did in 2015 (Greek debt crisis) and 2018 (Italian political turmoil). In other words, while an improvement in the eurozone's growth sentiment may trigger an asymmetrical upside reaction in EUR/USD, a prolonged short-term undervaluation is surely possible should gas prices remain elevated and the threat of supply shortages material.

Indeed, [yesterday's PMIs](#) all but confirmed the market's concerns about the toxic combination of high energy prices and slowing global demand, and a full inversion of yesterday's moves may be on the cards today. A drop to 0.9800 in our view is more likely than a sustained recovery above parity in the near term.

The eurozone's calendar is very quiet today and there are no scheduled ECB speakers. We think the ECB should turn more vocal on the weak euro, although the practical implications for the FX market may be quite small for now.

*Francesco Pesole*

## ⬇️ GBP: Quiet calendar, same downside risks

The UK's August PMIs offered something for both the doves and the hawks at the Bank of England. The slump in the manufacturing sector appears mostly driven by slower demand, and the survey seems to suggest input prices are cooling. On the other hand, hiring demand has remained strong and the difficulty in finding staff remains quite elevated – all of which points to sustained upside wage pressure. The bottom line is that core inflationary pressures may have peaked, but there are indications that service inflation may prove more persistent.

There are no events or data releases to highlight in the UK calendar today. We see downside risks for Cable as yesterday's dollar drop may be unwound further, with 1.16/1.17 remaining the bias for this week. EUR/GBP may bottom out if it reaches 0.8400, as similar economic troubles for the UK and the eurozone argue against sustained deviations from its recent range.

*Francesco Pesole*

## ⬇️ CEE: End of the sell-off not in sight

Today in the CEE region, there are confidence indicators in the Czech Republic and labour market data in Poland and Hungary. Czech consumer confidence has slumped massively in recent months under pressure from rising inflation and fears about the future and was already at near all-time lows in July, and no improvement is expected for August either. On the other hand, labour market data from Poland and Hungary should confirm the tightened conditions. Hungarian wage growth,

while slowing from June, remains well above 10%. Unemployment in Poland has fallen further and may see further record lows.

For the CEE market, the conditions remain the same: EUR/USD near parity, gas prices slightly below their peak, risk-off sentiment and a sell-off in CEE bonds. The Hungarian forint continues to move higher, following the pattern of gas prices. However, Thursday's National Bank of Hungary meeting is approaching and, [as we mentioned yesterday](#), this may bring further weakness for the forint. However, the Polish zloty could stabilise for the time being. After a few days, we saw the first rise in the interest rate differential which could keep the zloty around 4.770 EUR/PLN. However, the float FX side remains heavily dependent on global events which may trigger another sell-off. The koruna seems to remain under the safe wings of the Czech National Bank. While the central bank's balance sheet data confirms minimal FX intervention activity last week, we can expect the CNB to be more active this week.

*Frantisek Taborsky*

## Authors

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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