

FX Daily: An important week for the dollar

US data this week should be a key determinant of whether the two-month dollar bear trend extends or whether the dollar merely drifts back into ranges seen over the last 18 months. Elsewhere we have rate meetings in Canada and Poland and a continued focus on China's lacklustre economy. Little will be revealed today, however, given the US holiday



➔ USD: Lots of US labour market data this week

Having sold off around 5% since the start of July, the dollar rebounded last week. Clearly, the dollar bear trend needs to be fed and there was little on offer last week. It is a different story this week. After today's US Labor Day public holiday, the US data calendar picks up with ISM manufacturing data (Tuesday), JOLTS job opening data Wednesday, ADP, jobless claims, and ISM services (Thursday), and then the main event of the week, the August jobs report on Friday.

If the consensus is right about Friday's jobs report (165,000 job gains and a drop in the unemployment rate back to 4.2%) then market pricing will firm up just a 25bp cut as the start to the Fed easing cycle on 18 September. ING's US economist, James Knightley, actually thinks payrolls could come in at just 125k, but the unemployment rate could tick up to 4.4%. If so the dollar will be back to test recent lows as the pendulum swings back to a 50bp Fed rate cut in September.

We'll also see this week whether US opinion polls start to register in FX markets. Arguably, the dollar sell-off since July (for good macro reasons) has been assisted by the improved polling performance of the Democrats. As we now enter the run-up to November, opinion polls will become ever more important and certainly, this will be a hot topic next week after the first Harris-Trump TV debate which takes place on 10 September.

Expect the Labor Day holiday to keep FX trading subdued today and we doubt DXY has the legs to get over the 101.85/102.00 region.

Chris Turner

➔ EUR: In the doldrums

The morning starts with much focus on German state elections. As [Carsten Brzeski writes](#), this is the first state election win for an extreme right-wing party since the Second World War. The main fall-out, however, will be felt by the very poor results of the ruling federal coalition and whether they have any plans to boost spending into federal elections next year. None are expected, which leaves the German economy in a malaise as the manufacturing sector continues to stagnate. That should be confirmed today with another round of weak manufacturing PMIs across Europe – which have already seen the Dutch PMI drop this morning.

With August eurozone inflation data surprising on the downside, the ECB has a green light to cut rates 25bp at its 12 September rate meeting. However, two-year EUR:USD interest rate swap differentials are still trading inside of 100bp and support EUR/USD trading around 1.10/1.11. For today, let's see whether intra-day support at 1.1040 can hold. If not, the case builds further that EUR/USD remains a 1.05-1.11 story until further notice.

Chris Turner

⬆ CEE: NBP to leave rates unchanged as inflation in Turkey continues to fall

The CEE region will become interesting again after a few rather quiet weeks. Today we will see PMIs in the region still confirming the pessimism in the industry. Tomorrow the Czech Republic will release second quarter wages where we expect a slight decline from 7.0% to 6.8% YoY in nominal terms, below Czech National Bank (CNB) expectations.

In Turkey, August inflation continues to fall from 61.8% to 51.9% YoY, according to our estimates, and in Hungary we will see the 2Q24 GDP breakdown. On Wednesday, we expect the National Bank of Poland to leave rates unchanged at 5.75% in line with market expectations. Thursday as usual will be followed by the National Bank of Poland governor's press conference. On Friday, the Czech Republic and Hungary will release industrial production for July and Romania's second quarter GDP breakdown.

Several speakers are also scheduled this week. On Thursday in Hungary, the finance minister and the central bank governor will speak at a local conference. Also in Hungary, there is a meeting of EU ministers in the second half of the week to discuss cohesion policy and EU money.

CEE FX seems fairly priced to us at the moment. On the negative side, EUR/USD has been going down in recent days which has not yet fully translated into CEE FX. On the other side, rate

differentials remain the highest in several weeks which should keep CEE FX at stronger levels. Overall, we are slightly bullish on the CZK, which has been gradually heading below 25.00 EUR/CZK for the last few days, which has been our view for a long time. We are also slightly bullish on PLN, which is recovering from a quick sell-off last week. On the other hand, the HUF potential is hitting a ceiling in our view and we are more likely to see a EUR/HUF reversal to the upside here.

Frantisek Taborsky

⬇️ BRL: Central bank intervenes on Friday

Brazil's central bank, BACEN, intervened on Friday to support the real. BACEN said the move was to offset pressure on the real due to the rebalancing of the MSCI equity index which takes place today. Yet the real was also under pressure after Friday saw the July primary budget deficit come in three times higher than expected. The news comes at a bad time for the Brazilian government as it remains under pressure to deliver fiscal consolidation into 2025.

The market is now pricing a 25bp Brazil rate hike for 18 September – the day that the Fed is expected to cut. That may help stabilise the real, but we remain concerned that with high levels of floating rate debt, Brazil's challenge to roll its debt at 12% per annum rates will keep the real on the back foot.

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