FX Daily: Another day of USD weakness

The dollar remains soft across the board and we don't see the trend reversing any time soon

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USD: Nowhere to hide

It seems as if there is nowhere to hide for the dollar, with the currency continuing its broad-based weakness, particularly within the G10 FX complex. The Fed-induced narrative of lower nominal and real rates for longer has (a) taken away any prospects of upside potential from the dollar; and (b) allows investors to rotate into investment opportunities elsewhere. We expect the US August ISM Manufacturing survey to remain largely stable today, suggesting little potential to change the current trend of USD softness. In Australia, the central bank kept rates unchanged overnight in line with expectations and did not express any urgent discomfort with the ongoing currency appreciation. Like other G10 currencies, the Aussie dollar currently benefits from the broad-based USD decline, making it hard for the bank to lean against the wind.

EUR: Eyeing 1.2000

The downside surprise to Italy's CPI yesterday suggests downside risk to our 0.2% year-on-year forecast for August eurozone CPI today. Still, no imminent response from the European Central Bank is likely and as the US dollar outlook remains unappealing, the bias remains for higher EUR/USD this week. This was very apparent yesterday and overnight, when USD continued to soften within the G10 spectrum and EUR/USD has now pushed towards the 1.2000 level despite limited data flow. In Norway, PMI Manufacturing today should have a negligible impact on EUR/NOK, with the high beta krone (exerting the highest sensitivity to risk among G10 currencies) benefiting from the soft USD environment.

GBP: Helped by the falling dollar

GBP/USD continues to push higher (breaching the 1.3400 level for the first time this year), primarily driven by the rise in EUR/USD. With a clear USD downtrend underway, the bias remains for higher GBP/USD this week.

CEE FX: Manufacturing PMIs keep CEE FX intact

Central and Eastern European Manufacturing PMIs for August should remain fairly stable today. Polish and Hungarian PMIs are expected to stay in expansionary territory while the Czech PMI is likely to be close to, yet below, 50. We look for a limited spillover into local currencies, with EUR/CEE crosses remaining stable. The Czech koruna and Polish zloty remain attractive within the wider emerging markets space to express an overlay to a bullish EUR/USD view. Indeed, PLN was the best performaning EM currency in August (also partly helped by the reversal in tactical short PLN/HUF positions in mid-Aug). As for Hungary's forint, we expect its recent weakness to fade as Hungarian inflation has likely peaked and the central bank is highly unlikely to cut interest rates to zero.

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