

FX Daily: Central bank speakers take centre stage

Plenty of Fed speakers this week will clarify the FOMC's policy views after Chair Powell's cautious remarks last week. With the Dot Plot signalling two more cuts this year, we don't expect much support for the dollar, which is looking moderately expensive in the short-term. PMIs across developed countries and the US PCE are the other highlights this week



Trump-loyalist Stephen Miran, who voted for a 50bp rate cut last week, is one of several Fed members scheduled to speak this week

📌 USD: Fine tuning the Fed message

The dollar is looking moderately cheap according to our short-term fair value model. Some positioning adjustments probably played a role in last week's reaction to the Federal Reserve rate cut, and while the drop in jobless claims bucks the negative trend of jobs market news, the bar remains relatively high for more data surprises to lift the dollar. That's because, despite Jay Powell's attempt to soften the dovish tone in the press conference, the Dot Plot (median implying two more cuts this year) should, in our view, work as the strongest anchor for rate expectations.

Expect a lot of focus on FedSpeak this week. Investors are attempting to gauge whether Powell's cautious tone on the need for more cuts is shared by the majority of the FOMC. Today, we'll hear

from hawkish-leaning Beth Hammack, Alberto Musalem and Tom Barkin, from dovish-leaning John Williams and from Stephen Miran, who voted for a 50bp cut last week. Powell speaks on the economic outlook tomorrow.

On the data side, the highlight of the week is the core PCE read for August, which we expect at 0.2% month-on-month, in line with consensus. That should reinforce expectations for two cuts by year-end (now 43bp priced in), and contributes to our moderately bearish bias on the dollar for the week.

Francesco Pesole

📈 EUR: Upside risks persist

This week's eurozone calendar revolves around tomorrow's PMIs, which are expected to flatten up after some good August readings. Later this week, the German Ifo will complete the activity survey picture.

There are also a few European Central Bank speakers to watch, with José Luis Escriva, Philip Lane and Joachim Nagel speaking today. Governing Council doves have been relatively silent, and while it might be too early to hear strong opposition to the "good place" narrative from ECB President Christine Lagarde, our economics team signals some risk of the doves becoming more vocal later this year.

EUR/USD's short-term fair value is 1.190 as of this morning, and we see upside risks beyond the 1.180 level this week as the dollar may shed its post-Fed gains.

Francesco Pesole

📈 GBP: Bailey and Pill speak today

Central bank speakers and PMIs will also be in focus in the UK this week. Bank of England Governor Andrew Bailey and Chief Economist Huw Pill will speak today. Bailey said last week that rate cuts should continue, but at a more unpredictable pace.

As discussed [here](#), we retain a preference for another rate cut in November. Considering market pricing is 7bp, EUR/GBP has upside potential into year-end. Noise surrounding the November Budget can contribute to upside volatility.

But for this week – barring major divergence in PMIs – EUR/GBP may not drift much higher given the lack of convincing drivers to sell the expensive pound.

Francesco Pesole

📈 CEE: Central banks set to confirm their hawkish stance

This week will be relatively quiet in terms of data, but we will see two central bank meetings – on Tuesday, the National Bank of Hungary, and on Wednesday, the Czech National Bank. The NBH will likely leave [rates at 6.50%](#) and present a new forecast. Forward guidance should remain hawkish, and we are unlikely to see much change here. The new forecast also should not see too many changes from the last version in June, and overall the meeting seems more like a non-event and confirmation of the earlier stance. Our economists have just revised our NBH path and we now

expect rates to remain unchanged in the first half of next year.

The CNB will also likely leave [rates at 3.50%](#), and there will be no new forecast at this meeting. Communication should also be hawkish, and we are likely to see some escalation in rhetoric given the surprise upward revision in wages in 2Q. Several members of the Bank Board have already said that the cutting cycle is over, which is also our view, and we believe that the next step is a hike. Although this is not on the table at the moment, the market will be looking at how sensitive the central bank may be to rising inflation in the future and the probability of a rate hike over the next year, where rate stability is currently priced in.

In Poland, rating agency Moody's downgraded its outlook from stable to negative (A2), as expected, on Friday after closing hours. The decision comes after Fitch's earlier move to downgrade its outlook, where the rating is already one notch lower. Both agencies mention the deteriorating outlook for fiscal policy. In recent days, we have seen the Polish zloty underperform its CEE peers, and this is likely to be the case today as well. However, EUR/PLN remains range bound at 4.240-270, and if we go to the upper bound, it could be a good opportunity for the market to fade.

Both currencies have seen a decent rally in recent weeks, and we believe there is still some room for gains. The CNB probably has greater potential to support FX than the NBH given its long position in Hungary's forint already. EUR/CZK is likely to test new lows below 24.250 and eventually go to 24.000. EUR/HUF saw a small correction on Friday, but positive conditions remain and we should go back below 390.

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