

## FX Daily: Consumer resilience to test the dollar today

The highlight of today's FX session should be the release of September's US retail sales data. Softer credit card spending warns of a downside surprise here. Given that consumption has been a big driver of recent US growth, a softer number could stress test the conviction of those holding dollars. Elsewhere, Polish assets remain bid after the elections



Softer US retail sales figures could test some of the late arrivals to the long dollar trade.

### 📉 USD: Will US retail sales slow and will the dollar soften?

Events in the Middle East are keeping investors nervous, although equity markets have been able to deliver some modest gains at the start of the week. The US 3Q earnings season picks up pace this week, where both Goldman and Bank of America release results today. Technical analysts will no doubt be looking at an upside gap on the S&P 500 chart, where closes above it might remove some of the downside threat.

Elsewhere, US yields have quietly climbed higher today - as has market pricing of the low point in the Fed Funds cycle two to three years out. This suggests this 'higher-for-longer' policy rate narrative will be a stubborn one to shift. That brings us to the highlight of today's session, which is

the 1430CET release of the September US retail sales figure. Our US economist, James Knightley, warns that ex-autos and gasoline, the underlying figure [could be a soft one](#). This is based on the softening in credit card sales over recent months.

Given that powerful US growth and the US 'exceptionalism' story has largely been based on the US consumer staying in work and spending, a softer retail sales figure could test some of the late arrivals to the long dollar trade. That should mean that DXY will struggle to break 106.75 resistance and instead may end up pressing intra-day support at 106.00.

In addition to retail sales, today also sees US industrial production - also expected soft on the back of the auto-sector strikes - and several Fed speakers. Again, we are on the lookout for any consistent language from the Fed that tighter financial conditions (from the rise in bond yields) mean that the Fed does not need to tighten any further.

One final point: late in the US day, we get to see Treasury International Capital (TIC) flow data for August. The release contains updates on what major foreign nations are doing with their US Treasury holdings. Chinese holdings of US Treasuries have fallen to \$821bn from \$1.04tn at the start of 2022. A further decline could add to woes in the US bond market and also start to question whether a rise in US Treasury yields on the back of a higher term premium really is good news for the dollar after all.

Chris Turner

## ➔ EUR: Probably trapped in tight ranges

EUR/USD has edged slightly higher on the back of a mildly positive equity environment. In the background, we also see China-linked commodities such as iron ore doing quite well - perhaps on the back of more fiscal and monetary stimulus expected from China. This is slightly supportive for the growth-oriented euro. We suspect today's path for EUR/USD will be largely determined by the US retail sales release. If we're right about the risks of a softer number, EUR/USD could push through intra-day resistance at 1.0575/85 towards the 1.0610/15 area. Any close above there suggests EUR/USD could be in for a decent correction after all.

In terms of the local calendar, consensus expects some mild improvement in the weak German and Eurozone ZEW investor survey readings. However, this data is typically not a big market mover. We also see a whole host of ECB speakers, where the interest will be in whether hawks like Klaas Knot feel that the ECB has done enough tightening.

Away from data and speakers, we are also interested in reading reports on how the EU's plans to use [Russia's frozen assets are moving forward](#). Here, Belgium is proposing to use the profits of Russian assets frozen at Euroclear to set up a fund to boost Ukraine. The report suggests the ECB is fearful of such a move in that this precedent might damage the prospects for foreign investment in Eurozone asset markets. This links to our earlier remarks regarding China's holdings of US Treasuries.

Elsewhere, Polish asset markets enjoyed some strong gains yesterday after weekend election results pointed to a change in government. Please see our Chief Economist in Poland, Rafal Benecki's take on the result and its implications [here](#).

Chris Turner

## 📌 GBP: Wages heading in the right direction for the BoE

This morning's release of UK wage data for August has softened a little and will be marginally better news for the Bank of England. Our UK economist, James Smith, says:

*No unpleasant surprises in the UK wage data at first glance. Private-sector wage growth ticked lower on a year-on-year basis and is also lower on a three-month annualised metric too. However, a lot of the data we usually get at the same time - including unemployment - has been delayed by a week due to quality concerns. The main event is tomorrow's services inflation data - and it would probably take a big upside surprise there to unlock a November hike.*

EUR/GBP ticked slightly higher on the release, and given that the market still prices in 18bp of further tightening in this cycle, it looks like EUR/GBP can grind towards 0.8700 - should tomorrow's release of September CPI also point to a benign outcome.

Chris Turner

## 📌 CAD: : BoC might be more tolerant of inflation bumps

Canada releases inflation figures for September today, and expectations are for no MoM change after the 0.4% August print, which would leave the YoY rate at 4.0%. Core measures are expected to slow down very marginally and stay close to 4.0%.

Market expectations for Bank of Canada tightening have remained high compared to the Fed, with 20bp priced in for January. Last week, BoC Governor Tiff Macklem said, "*it's not so much about where inflation is now, it's about where inflation's going to be*", possibly lifting some focus off the September CPI read and striking a seemingly more cautious tone. The still very tight jobs market argues against having a dovish turn, but there is a good chance that with higher market rates doing the tightening in Canada the BoC will be more tolerant of bumps in the disinflation path.

Given market pricing, the balance of risks appears tilted to the upside today. USD/CAD has moved back to the 1.3600 area, but there is some room for a rebound in the near term.

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