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FX

FX Daily: Data to prevail over geopolitics, for now

We expect the FX market to remain predominantly driven by data, and continue to treat expectations about a potential ceasefire in Ukraine with caution ahead of Friday's Trump-Putin meeting. We expect an above-consensus 0.4% MoM core CPI tomorrow, but any dollar support may only prove short-lived as a September rate cut remains on the cards



We think tomorrow's all-important US CPI release may be a bigger market event than Friday's US-Russia meeting

You can find our August edition of FX Talking here: [Cracks in the dollar's shield](#)

➔ USD: Eyes remain on data

This week will revolve around two major events: Tuesday's US inflation report and Friday's meeting between US President Donald Trump and Russian President Vladimir Putin in Alaska. Consensus is expecting another acceleration in core CPI, to 0.3% month-on-month (3.0% year-on-year), in this week's July print. That is a number that can probably be seen as acceptable for the Federal Reserve to proceed with a September cut (90% priced in), given the backdrop of a significantly weaker jobs market. We forecast a 0.4% MoM core print, which

would place greater emphasis on subsequent data and may limit further dovish repricing in the near term, though should not materially reverse September cut bets. From an FX perspective, we expect Tuesday's print to give the dollar some short-lived support, which should wane once other data confirm jobs and activity slack.

On the US-Russia summit, the consensus of political analysts and most media reports suggests that Putin is willing to agree to a ceasefire only with substantial territorial concessions from Ukraine. Trump's main leverage appears to be the threat of sanctions and protectionist pressure on Russia's trading partners, such as India. The extent to which Russia's economic slowdown might compel concessions, or how far Trump is willing to push for a favourable territorial settlement, remains uncertain. The absence of Ukraine and European representatives at the summit suggests any agreement reached on Friday should only be preliminary at best.

Crude oil prices serve as a useful barometer; they have declined 8% since early August, reflecting tentative optimism regarding a truce. Ukraine's 10-year bonds have rallied 2% over the same period. Should a ceasefire materialise in the coming weeks, the euro is likely to perform well, primarily against the dollar, yen, and Swiss franc. However, given the significant reduction in developed currency markets' sensitivity to energy prices and the Ukraine conflict since 2022-2023, we are not looking at it as a seismic event for FX.

US data and Fed-related developments should remain the dollar's primary drivers. Alongside the CPI report, key releases this week include the NFIB survey (Tuesday), PPI data (Thursday), and retail sales (Friday). Fed speak will also be critical as markets digest the implications of the substantial July jobs market revisions. An empty calendar and the proximity to tomorrow's CPI may keep FX markets in a quiet, wait-and-see approach for today.

Francesco Pesole

➔ **EUR: More sensitive to Ukraine optimism**

Any developments from Friday's US-Russia summit will have implications for the euro. However, as noted above, the considerable uncertainty surrounding the outcome and the reduced G10 FX sensitivity to the Ukraine conflict limit the case for significant adjustments to our EUR view at this time.

Domestic macroeconomic events in the euro area should offer little near-term support to the euro. The key highlight this week is the ZEW survey. This is widely expected to have deteriorated following the US-EU trade deal, which was poorly received across Europe. This may provide clearer signals on the economic impact of the 15% US tariffs and potentially revive the European Central Bank's dormant dovish faction.

A September ECB rate cut remains off the table for markets, with only a 20% and 50% chance

priced in for October and December, respectively. We continue to view this as overly conservative and expect another cut by year-end. However, given the ECB's anticipated silence in August and persistently low inflation, it may take time for markets to fully price this in. For now, we regard any potential dovish repricing as a temporary setback within a broader trend of euro strength supported by a structurally weaker dollar.

A stronger-than-expected US core CPI this week could push EUR/USD below 1.160, but such a move may attract buyers seeking to capitalise on the Fed's resumption of its easing cycle. We maintain our expectation that EUR/USD will break above 1.170 in the near term.

Francesco Pesole

➔ **GBP: Strong data needed to endorse BoE hawks**

The Bank of England's narrowly approved [rate cut last week](#) can generate some long-lasting momentum for the pound, should data endorse the MPC hawks' inflation concerns and relaxed stance on the jobs market slowdown.

Tomorrow, we'll see employment data for July. Consensus is looking for a -18k payroll print after June's -41k. There are admittedly risks of a softer-than-expected initial print followed by an upward revision in the coming months, as we've seen in recent instances. Markets may treat those with a bit more caution for this reason, as well as the BoE's lack of concern about jobs. On Thursday, second-quarter GDP should show the downward tariff distortion observed in many countries. We expect a 0.2% quarter-on-quarter print, slightly above the consensus 0.1%.

EUR/GBP is highly UK data-dependent at this stage. There is a path to move below 0.860 if markets keep pricing out BoE cuts, but residual easing expectations may prove hard to eradicate, and the euro's strength has been difficult to counter. We still see 0.870 as a more realistic target into the fourth quarter.

Francesco Pesole

⬆️ **CEE: US-Russia meeting sparks positive sentiment**

After a very busy week, we can expect to see some summer vibes in the CEE region emerging from local stories. The driver is shifting back to global stories, with the US-Russia meeting set to take place this week and Ukrainian headlines bringing positive sentiment to the region.

Tomorrow's calendar features inflation in Romania, the last July print in the region. We expect an increase from 5.7% to 6.4% YoY and more in the coming months as a result of fiscal consolidation. On Tuesday, the National Bank of Romania will also present its new forecast.

On Wednesday and Thursday, GDP figures for the second quarter will be released in Poland

and Romania. In Poland, we will see the final July inflation figures on Thursday, which previously surprised with a smaller-than-expected decline to 3.1%.

On Friday, the Czech National Bank will publish minutes that should detail a hawkish discussion following last week's decision to leave rates unchanged. Meanwhile, in Turkey, we will see inflation expectations for August, which should show a further decline.

FX in the region received a decent boost last week following the announcement of the US-Russia meeting, and we will be watching for more details this week. The Hungarian forint benefits the most from this, as expected, given that it's the economy most dependent on energy imports from Russia; this should be a hot market this week as well, depending on further developments. EUR/HUF closed at 395 on Friday, at 11-month lows, and the Polish zloty and Czech koruna saw similar support as well.

However, it's necessary to monitor the differences in CEE, where the HUF and PLN are not accompanied by movements in rates – and, on the contrary, the rate differential has narrowed. While lower inflation also means potentially lower central bank rates in the future, the movement in energy prices is not too significant for the time being. Therefore, FX gains, especially in the HUF and PLN, may only be temporary. On the other hand, the CZK benefits from a hawkish central bank and the end of the cutting cycle, and we believe that the gains here should be more permanent.

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THINK economic and financial analysis

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