

FX Daily: Dollar on solid ground

A fresh serving of US data should keep the market's expectations hawkish. The move in the interest rate differential plays in the dollar's favour and reduces the room for a recovery in the euro. The market is pricing in a near 75bp hike for next week's BoE meeting. And today we should hear more from Hungary about the negotiations with the European Commission



➔ USD: Plenty of data releases to watch today

Most dollar crosses have stabilised after the large post-CPI moves on Tuesday. In the meantime, markets have progressed in pricing in more Fed tightening, and Fed funds futures are currently embedding a 3.4% peak rate in March 2023, which is likely offering a good floor to the dollar.

Since the Fed has remained quite hawkish in recent commentaries and may not have any interest in pushing back excessively hawkish pricing at its September meeting (it has instead pushed back against rate cut expectations recently), it may mostly be up to the data to force any dovish re-pricing at this stage.

There are quite a number of data releases to keep an eye on today: retail sales, industrial production, Empire Manufacturing, and the Philadelphia Fed Business Outlook. Jobless claims may also gather more attention than usual after a surprisingly big drop last week fuelled the hawkish

narrative of a still very tight labour market in the US.

We see a good chance that today's data will not trigger any material re-pricing lower in Fed rate expectations, and the hawkish inertia into next week's meeting means that the dollar can stay supported.

Francesco Pesole

➔ EUR: Estimating impact of energy caps

The EUR-USD 2-year swap rate differential has re-widened in favour of the dollar – now at -175/180bp versus 155bp last week – and while we have highlighted on multiple occasions how the rate differential is indeed playing a secondary role in EUR/USD dynamics lately, this has reduced the room for a euro recovery further down the road.

There are no market-moving data releases to highlight in the eurozone today, but some focus will be on two ECB speakers: Luis De Guindos and Mario Centeno, normally some moderately dovish voices in the governing council. At this stage, it will be interesting to see how the ECB will factor in the freshly announced measures by the European Commission to cap energy prices.

Like in other countries, there is still some uncertainty on whether the government's efforts to freeze hikes in energy bills would have a predominantly dovish impact on central banks (as inflation would be lower) or a hawkish impact as the economic impact would be smaller and that allows more tightening.

While markets wait for more clarity on this, the dollar's resilience may keep EUR/USD at or below 1.0000 in the coming days.

Francesco Pesole

➔ GBP: A break in data releases today

In a very busy week for the UK economic calendar, we don't get any major releases today. Yesterday, the inflation report showed some marginal slowdown in prices, but as noted by our UK economist [here](#), we expect a peak at around 11% for headline inflation. However, this may not matter all that much for the Bank of England, which is looking at the latest labour and wage growth dynamics to gauge how entrenched inflationary pressures have become.

Markets are currently pricing in 67bp of tightening at next week's BoE meeting, and we see a good probability of markets fully pricing in a 75bp hike in the coming days. That could offer a bit of help to sterling into the BoE announcement, but EUR/GBP looks unlikely to make any big moves outside its recent range for now.

Francesco Pesole

⬇️ CEE: Negative noise around forint

The final Polish inflation figures for August, which surprised to the upside in the flash estimate two weeks ago, will be published today. Also, as is the case every Thursday, the National Bank of Hungary sets the deposit rate. Although yesterday's drop in the forint attracted a lot of attention, today's meeting should be a non-event. Nevertheless, Hungary will remain in the spotlight within

the Central and Eastern Europe region.

After yesterday's negative headlines from the European Union, we should hear more from the Hungarian side today and more on Sunday or next week. As we mentioned on [Monday](#), the negative noise around the forint was to be expected and after yesterday it is clear that the European Commission is playing hardball with the Hungarian government. However, part of yesterday's 1.5% fall in the forint can be attributed to higher gas prices, which saw their first increase in a week. For the days ahead, we expect that things will not get easier for the forint, but we believe that there will be a deal in some form, although it may include a conditional or partial release of EU money.

Elsewhere in the CEE region, we have seen a reversal in rates to the upside after a long period of decline, compensating for higher gas prices and resulting in stable FX. From this perspective, we thus see current levels as fair, waiting for new market impulses.

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