

FX Daily: Dollar sentiment slowly sours

In a poll conducted during our Economics Live webinar yesterday, 25% of respondents felt EUR/USD would end the year above 1.13. That is a subtle shift from the last poll conducted in early June, but does suggest the stranglehold of the dollar bulls is starting to loosen. Look out for US data today, plus central bank speakers in the UK, Poland and Hungary



➔ USD: ING's customers turn a little more bearish on the dollar

In a poll taken during our Economics Live webinar yesterday, 25% of respondents felt EUR/USD would end the year over 1.13, while 46% felt it would remain roughly stable in a 1.10-1.13 range. This was a subtle shift from poll results in early June which showed 47% expected EUR/USD to end the year in a 1.07-1.11 range and 30% expected 1.02-1.07. Stunningly, only 1% of respondents now expect EUR/USD to end the year sub 1.07. The shift in tone no doubt reflects the most recent experience of a 5% dollar sell-off since early July and the certainty that the Fed is about to embark on an easing cycle. As we cautioned in the webinar, we have a slight downside dollar bias ahead of the US elections in early November, but thereafter [scenario analysis](#) takes over.

In terms of short-term inputs to the dollar story, yesterday's poor JOLTS job opening data saw the Fed's terminal rate in two years' time priced at a new low – the 1m USD OIS priced two years' forward is now 2.85%. In other words, the market is toying with a sub-3% terminal rate, which is dollar-bearish. [Our rate strategy colleagues](#) note that the discount of the two-year Treasury yield to Fed Funds is currently very deep at 175bp, but presumably once the Fed starts cutting, short-

dated US yields can take another leg lower and soften the dollar.

Today the focus is on ADP employment data, initial claims and the ISM services index. Last night's release of the [Fed's Beige Book](#) showed that activity was slowing, but that Fed districts had yet to see a material increase in job layoffs. Let's see what the main event this week – tomorrow's August jobs data – brings us.

Unless there is a sharp downside miss to some of today's numbers, expect DXY to trade well within a 101-102 range. But the multi-week bias is bearish.

Chris Turner

➔ EUR: Seasonal factors weighing?

While we outline a cautiously bullish EUR/USD story above, we note that September is typically a poor month for both EUR/USD and the trade-weighted euro index. We're not sure what's behind that, but on the EUR/USD side it may relate to the 15 September US corporate tax deadline for those companies with a fiscal year ending 30 June. Unless we get a very sharp rise in the US unemployment rate tomorrow, it feels like very hard work for EUR/USD to break from the 18-month 1.05-1.11 trading range this month.

In Europe today, we've seen some surprisingly strong July factory orders data in Germany, with the prior month revised higher too. And later this morning we'll see eurozone retail sales data for July. The big story for the eurozone is whether consumers spend or save their rising real wages.

EUR/USD has just about held support at 1.1040 this week and will probably consolidate just under 1.1100 – unless today's US data surprises on the downside.

Chris Turner

⬇ GBP: Focus on BoE survey today

In the UK, the focus today will be on the Bank of England's Decision Maker Panel survey of CFOs. The most interesting question for the market will be whether expected and realised wage growth continues to slow. If so, the market might be tempted to close the gap between the pricing of the BoE and Fed easing cycles. Looking at what's priced before year-end, we see 107bp priced for Fed easing and just 44bp for the BoE. We suspect more easing can be priced for the BoE, which could leave GBP/USD a little vulnerable.

Also today is Bank of England chief economist, Huw Pill, speaking at the Bruegel Institute in Brussels at 11CET. He voted against the rate cut in August. It is unclear whether he will go near monetary policy in his speech today, but if he does, any signs of greater confidence in the disinflation process could also hit the pound.

1.3100 is the risk for GBP/USD today and medium term we see the cable rally contained in the low 1.30s.

Chris Turner



CEE: Statement does not suggest NBP governor dovish turn

This morning brought retail data in Romania and Hungary for July and we will get the same in the Czech Republic later in the day. We also have several speakers scheduled for today in the region. In Hungary, the central bank governor and finance minister will speak at a local conference at 2pm local time. Also in Budapest today EU ministers will meet to discuss cohesion policy and EU funds, which will often bring some headlines related to Hungary.

Then at 3pm local time, the Governor of the National Bank of Poland is scheduled to hold a conference following yesterday's decision to leave rates unchanged at 5.75%, as expected. The post-meeting MPC statement does not contain significant changes from July and does not suggest a softening of the monetary policy stance seen in recent statements by council members and suggested by the governor in a recent interview in August.

There seems to be no turn of the Governor's mind, so we will probably get only a slightly weaker hawkish tone than we are used to, something between the June and July versions. However, markets are on the dovish side with the first full cut priced in for December this year while our economists are expecting the first cut only in the second quarter of next year.

On the other hand, the core markets are pushing rates in the region down which does not make the situation easier for rate-payers. EUR/PLN seems locked in the 4.270-280 range this week and as we mentioned yesterday we are rather neutral on PLN at the moment with a slight preference towards the lower end of this range.

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