

## FX Daily: Dollar takes a back seat

Friday's soft US jobs report is now favouring a dovish taper from the Fed and has drawn some of the sting out of upside scenarios for the dollar. It is a quiet for the US data calendar, including today's Labor Day holiday, but there is plenty going on elsewhere. The key focus this week will be central bank rate meetings in many regions, including the Eurozone.



### ⬇️ USD: Soft NFP can keep dollar upside contained

Broad measures of the trade-weighted dollar are now about 1.5% off their mid-August highs. Helping the correction certainly has been Powell's Jackson Hole speech de-linking the tapering debate from the first tightening. And Friday's [softer NFP jobs report](#) nudged the dollar a little weaker. Chances of the Fed announcing tapering at the September 22nd meeting seem to be dwindling.

A light US data calendar, including a public holiday today, means that there is little oxygen for the Fed tapering debate this week and we doubt the release of the Fed Beige Book or a variety of Fed speakers this week will have much to add. Instead, the focus will be on a whole host of central bank rate meetings elsewhere in the world. The pick of these is the ECB meeting, but there will also be much interest in the meetings of Russia and Poland in particular - the former likely towards the

end of its tightening cycle and the latter yet to begin.

With speculation over ECB tapering likely to keep EUR/USD bid on dips into Thursday, we favour the dollar staying slightly offered through the early part of the week. One of the biggest threats to this benign environment remains China. Even though Chinese equities have stabilised recently and USD/CNY has edged away from 6.50, there is still much focus on Chinese real estate developer Evergrande, whose 2025 \$ bonds are trading 26 cents on the dollar. Fears of default as creditors circle could rain on the parade.

We would favour DXY continuing to drift near the lows of a broad range at 91.80/92.00, though would also keep an eye on US yields this week. A return of supply promises to steepen the curve, but for a speculative market already long dollars, the dollar may not need to rally too far.

## 📈 EUR: ECB and German elections to keep EUR supported

A soft NFP figure saw EUR/USD test, but fail to break, resistance at 1.1900/1910 on Friday. Expect EUR/USD to remain bid through the early part of the week as the market adjusts positions ahead of Thursday's ECB meeting. While our team ultimately expect the [ECB to avoid tapering](#), a speculative market short EUR may choose to rein in some positions ahead of Thursday's event risk.

German elections also add another layer of intrigue to the EUR/USD story. Will the [FDP play the kingmakers for the SPD](#) and if so at what price? As we've noted recently the FX options market has only added a 30-40% expected increase in normal daily volatility to the German election risk, but this could build.

1.1850-1.1910 could be the narrow EUR/USD range in a quiet start to the week.

## ➡ GBP: Fiscal debate hots up

GBP is performing reasonably well and EUR/GBP is trading comfortably inside a 0.8540 to 0.8600 range. Locally the focus is on PM Johnson trying to push through an increase in National Insurance to fund social care - against the wishes of many in his party. Press reports suggest he'll likely to get his way, however. This theme will likely grow into the Chancellor's Autumn budget due on October 27th and the degree to which the government feels confident enough to start fiscal consolidation.

Combined with the deadlines for the Northern Irish protocol expiring at the end of September, October could well be a rockier month for GBP and suggests any GBP strength below 0.8550 in EUR/GBP or near 1.39 in Cable be used to hedge a little more GBP receivable positions.

## 📈 PLN: Gearing up for Wednesday's MPC decision

EUR/PLN continues to trade near the recent lows of 4.50 and should stay offered into Wednesday's MPC announcement. Rather like the ECB, August's [high inflation print](#) is asking similar questions of Poland's MPC as to whether policy needs to remain so loose. Our team think that the MPC will move to its first tightening in November.

A debate might then emerge as to whether the MPC will tolerate a stronger Zloty - having been intervening to weaken the Zloty late last year.

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