

## FX Daily: Dual mandate test for the dollar

Today's US jobs data will reveal if softer employment will indeed be the primary driver for a September cut, as the Fed now sees risks to both sides of its mandate. An abatement of safe-haven flows could leave the dollar exposed to unsupportive macro drivers. Elsewhere, we still favour a gradually higher EUR/GBP despite a mixed reaction after the BoE cut



### 📉 USD: Looking expensive into the payrolls

One can probably argue that the relatively [cautious tone](#) by the Federal Reserve this week will prevent markets from pricing in more than the current 75bp of cuts expected (25bp at each meeting) by year-end. Some decent action is however happening on longer tenors – i.e. the terminal rate pricing. We have seen the USD 1Y1D forward cash rate drop almost 40bp to 3.64% following Wednesday's FOMC and the 2Y1D move to 3.20% for the first time since February. Our debt team's call for 4.0% in two-year US Treasury yields keeps us confident on rate-driven US dollar softness ahead.

US macro news (FOMC, higher jobless claims, poor ISM manufacturing) are all pointing to a weaker dollar, which is however receiving good support from the widespread equity selloff. Today, the July jobs report will tell the Federal Reserve how much risks are getting skewed to the employment side

of their mandate. The consensus payroll number is 175k, in line with our economists' call. Markets will be quite attentive to the two-month revisions, which were -111k in June, and the unemployment rate, which is seen stable at 4.1% (already above the Fed's year-end 4.0% projection).

We are bearish on the dollar today because a) evidence from employment components of the ISM and NFIB surveys suggest the risks are skewed to a weaker payroll print, and b) once the equity turmoil and safe-haven demand abate, the macro drivers should drag the USD lower. We continue to look at a drop below 104.0 in the near term in the US DXY index.

*Francesco Pesole*

## ⬆️ EUR: Lack of drivers for a while

The stock market instability is proving particularly intense in Europe, perhaps on the back of worse eurozone growth expectations which look unlikely to be countered with big European Central Bank rate cuts given sticky inflation. The Euro Stoxx 50 index is now just above +5% year-to-date against the S&P500's 14%. This equity factor is probably contributing to a lower EUR/USD, which moved back below 1.080 yesterday despite the post-FOMC USD weakness.

Today, we are leaning in favour of some support for the pair on the back of our USD view. The eurozone calendar is empty today, and we are entering a seasonally quiet period not just for data but also for ECB speakers. Given how [poor eurozone activity indicators](#) have been of late, it is probably a good thing for the euro, and we do see room for the common currency to benefit from a benign rate-drive dollar decline.

*Francesco Pesole*

## ⬇️ GBP: Lower rates to take their toll

It was a mixed day for sterling yesterday. Having gone offered ahead of the Bank of England (BoE) meeting, sterling stabilised/rallied on the 5-4 vote to cut rates and as Governor Andrew Bailey provided very [little indication about future cuts](#). Yet as the day progressed, investors firmed up views that this was the start of an easing cycle, the short-end of the UK yield curve fell quite sharply and EUR/GBP closed towards the highs of the day.

Looking ahead, we see scope for the UK policy rate to be cut more than that in the eurozone and look for EUR/GBP to turn slowly higher. While we can understand the narrative of a risk premium being priced out of the pound as the new Labour government tries to mend ties with Europe, we do not think sterling is fundamentally undervalued. And we think it will respond to softer inflation or employment data ahead of the next BoE meeting on 19 September.

We have been too bullish on EUR/GBP this year, but still favour levels above 0.85 later this year.

*Chris Turner*

## ⬆️ CEE: CNB overdelivered on hawkishness

The Czech National Bank (CNB) delivered a hawkish rate cut of 25bp to 4.50% yesterday, which was perhaps too hawkish. According to our expectations, the new forecast shows slightly lower GDP growth and inflation, higher EUR/CZK and a higher rate path. However, the PRIBOR forecast is

probably the only surprise with a significant upward revision. The central bank now sees 4.30% for the end of the year and 3.50% for the end of next year. This is roughly 70bp and 45bp above current market expectations. This seems to us to be such a big difference that the market will find it hard to believe such a hawkish view given the poor outlook for the economy and inflation on target. This was seen in yesterday's market reaction, where rate payers did not have much of a chance in the global rally. On the other hand, we see the main space in the CZK market now. In recent weeks, EUR/CZK was closely followed by the rate differential, which reached multi-week highs after yesterday's session. In our opinion, EUR/CZK will therefore head down with the landing range at 25.20-25.25 as the first stop.

Today the calendar is empty in the CEE region and the market will follow the US jobs data. Still, the CNB will have a meeting with analysts today where we should hear more about the new forecast, so we can expect more hawkish views. Elsewhere in the region, we maintain a bullish bias for the zloty and a bearish bias for Hungary's forint.

*Frantisek Taborsky*

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