

FX Daily: EM and China remain in demand

The release of the July FOMC minutes failed to move the needle on the dollar story. What is interesting is the continued strong performance of Chinese assets, with the benchmark CSI 300 equity index up 5.9% this month in dollar terms and the PBoC's USD/CNY fixing at its lowest since last November. Investor appetite for EM is typically a dollar negative



China's renminbi has been gaining momentum

➔ USD: FOMC minutes were old news

The dollar is little changed after last night's release of the FOMC minutes for July. That FOMC meeting was held before the release of the July jobs data – meaning that all the references to a 'solid' jobs market in those minutes are now under scrutiny. Instead, we're all waiting on tomorrow's speech from Fed Chair Jerome Powell as to how significantly the Fed registered the substantial downward revisions to back-month job data. Before then, at 1330CET today, we'll have a speech from the Fed's Raphael Bostic. He's recently been saying he could vote for a rate cut soon, although one rate cut this year is his preferred adjustment.

One interesting snippet for FX markets in those FOMC minutes were remarks that the available data showed 'relative stability' in foreign holdings of US assets. In other words, any tariff-driven

exodus from US asset markets doesn't seem to be extending.

Today's US data calendar sees the weekly initial claims data, the S&P PMIs and July existing home sales data. We're neutral/slightly bearish on the dollar and see continued strong performance of Chinese asset markets (see below) as a mild dollar negative.

98.00-98.50 looks to be the DXY range into tomorrow's speech from Chair Powell. Political pressure on the Fed's Lisa Cook to resign briefly weighed on the dollar yesterday. We doubt the dollar needs to sell off much more on this story given that President Trump frequently calls on Jay Powell to resign immediately as well.

Chris Turner

➔ EUR: August PMIs in focus

EUR/USD is becalmed. It's fair to say that the optimism over a potential ceasefire/peace deal in Ukraine is now fading, as evidenced by EUR/CHF dropping back down to 0.9370. Russian Foreign Minister Sergei Lavrov's assertion yesterday that Russia and China would have to be part of any future security guarantees suggests the West and Russia remain far apart. Indeed, it feels like the next move here is for Washington to swing back behind secondary sanctions. We note oil and natural gas have gone bid over the last 24 hours. That's a mild euro negative.

On the calendar today are the flash August PMIs for France, Germany and the eurozone. Consensus is expecting no major improvement here.

We may see another tight 1.1620-1.1670 trading range in EUR/USD today, with the biggest chance of a breakout remaining Powell's speech tomorrow.

Chris Turner

➔ CNY: China's 'global renminbi' moment

It's been a good month for Chinese assets. The benchmark CSI 300 is +5.9% this month in dollar terms. The People's Bank of China (PBoC) USD/CNY fixing is now the lowest since last November and suggests authorities are welcoming this modest renminbi strength even though recent macro data has been soft and the global trade environment remains uncertain.

There have also been two developments this week which have caught our eye and could be described as China's bid for a 'global renminbi' moment. The first is a report out of Kenya that it is in discussions to swap its USD debt into longer-dated CNY debt. Kenya has about \$40bn of external debt. While there is a commercial play, no doubt politics is at work too. The dollar became the pre-eminent global reserve currency in the interwar period after the US made heavy, dollar-denominated loans to Europe. China will be keen to roll out CNY-denominated loans to grow the renminbi sphere of influence.

The second is a *Reuters* report that China is looking to fast-track the creation of renminbi-backed stablecoins. Obviously, there's huge focus on USD-backed stablecoins – such as Tether – especially after the passage of the GENIUS Act in the US. While stablecoins are largely seen targeting the retail space at the moment, China is no doubt wary that the technology will spread to the wholesale space and China won't want to be left behind should wholesale payments head that way. In other words, stablecoin is another arena in which global blocs will be fighting to

internationalise their currencies.

In all, these are positive developments for the renminbi, and for the quarters ahead we have USD/CNY grinding down towards the 7.10, possibly 7.05 region.

Chris Turner

NOK: 2Q growth much better than expected

Norway has just released much better than expected second-quarter data at 0.8% QoQ, with positive revisions for the first quarter. Markets had been pricing a 75bp easing cycle from Norges Bank over the next 12 months, but the data may question whether Norges Bank is ready to deliver another 25bp rate cut this year. With a policy rate at 4.2%, the high-beta Norwegian krone remains one of the G10 high yielders.

We have EUR/NOK targets at 11.75 and 11.65 for the end third and fourth quarters, respectively, this year. Today's GDP data is helpful.

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