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FX

FX Daily: Euro takes France's downgrade in its stride

In a quiet start to the week for FX markets, EUR/USD is trading steady despite French debt being downgraded on Friday night by Fitch. That downgrade has already been priced into French debt markets, and instead, Wednesday's FOMC meeting is set to be the dominant event for EUR/USD this week. We also have central bank meetings in the UK, Japan, Canada and Norway



We haven't seen much of a reaction from the euro so far to Friday evening's decision by Fitch to downgrade France one notch to A+

➔ USD: Gearing up for Wednesday's FOMC meeting

A public holiday in Japan has seen a quiet start to the week in global FX markets. In terms of overnight news, we note some [soft China activity data](#) that calls out for some more stimulus. And we also note the rally in Korean asset markets after the government scrapped a planned lowering in the threshold for the capital gains tax. This has dragged USD/KRW away from 1400 again.

Looking ahead, it's a big week for central bank meetings. Five of the G10 central banks are meeting, and three of them are expected to cut. The highlight, of course, is [Wednesday's FOMC](#)

[meeting](#). We and a strong consensus are looking for a 25bp cut, then two further 25bp cuts in October and December. The market currently prices 68bp of the 75bp in expected cuts this year. We see the dollar staying gently offered into the meeting, and it could sell off a little further should a 50bp cut at the meeting prove a closer call than most expect.

Beyond the FOMC meetings, highlights of this week's US calendar are Tuesday's release of August retail sales data and Thursday's release of weekly jobless claims and July Treasury International Capital (TIC) data. Last week's jump in jobless claims briefly hit the dollar, and the TIC data will be scrutinised for any signs that foreign investors are not just hedging US assets, but outright selling them.

We still think there are some seasonal effects keeping the dollar gently supported, but this week's FOMC should set the tone into the fourth quarter. Expect DXY to continue trading in a tight 97.20-98.00 range until Wednesday evening.

Chris Turner

➔ **EUR: French downgrade had been expected**

French sovereign bonds have been trading at spreads to swap rates consistent with multiple downgrades. It is no surprise then that French debt and the euro have not reacted too much to Friday evening's decision by Fitch to downgrade France one notch to A+. Locally, the focus is on how quickly, if at all, new French Prime Minister Sébastien Lecornu can focus the minds of a disparate National Assembly on the unpopular but essential path of fiscal consolidation. One of Lecornu's first moves has been to abandon plans to eliminate two public holidays. Expect FX market players to keep one eye on French debt, even though our core view is that this is not going to broaden into another eurozone crisis.

It is not a big week for eurozone data, but there are plenty of speakers scheduled across the bloc. Our focus today is on a speech from the European Central Bank's Isabel Schnabel at 1:30pm CET. She's been sounding quite hawkish recently, describing the ECB's 2.00% deposit rate as 'mildly accommodative' and warning that central banks may end up raising rates much sooner than investors expect. Her speech is a mildly positive event risk for EUR/USD and short-dated euro swap rates today.

Expect EUR/USD to continue trading a tight 1.1700-1750 and await its next cue from Wednesday's FOMC meeting.

Chris Turner

➔ **GBP: A much busier week for sterling**

Sterling faces a much busier week. The highlight is [Thursday's MPC meeting](#). But before then, we have the jobs/earnings figures tomorrow and then the August CPI release on Wednesday.

Unless we see some surprise drop in employment and/or wages/services inflation, it looks like the Bank of England will continue the hawkish narrative it introduced at the August MPC meeting. This has resonated with investors, where the market only prices 8bp of rate cuts this year and a total of 40bp by next summer.

The divergence in UK inflation from that of the eurozone and the US is quite rare, and one can argue now that the UK price data is far more important than the activity data in determining when the BoE is prepared to deliver the next leg in its easing cycle.

Elsewhere, the travails of the UK Labour government have not dented appetites for the high-yielding pound. We think EUR/GBP looks comfortable in its 0.86-0.87 range, while GBP/USD could break above resistance at 1.3590/3600 this week if the Fed is sufficiently dovish.

Chris Turner

📉 CEE: The region is awaiting a correction

Today, final inflation figures for August will be released in Poland, which should be confirmed at 2.8% year-on-year. Detailed data should allow for a more precise calculation of core inflation, which, according to our estimates, moderated to 3.0-3.1% YoY from 3.3% YoY reported in July.

In the Czech Republic, PPI for August will be published on Tuesday. On Thursday, Poland will publish wages and industrial production for August. We think wage growth should continue easing, albeit gradually, as the labour market remains tight despite some cooldown in demand for workers. Polish industrial production has been generally stagnant in recent quarters. August is traditionally a month of production breaks in the automotive industry, and this year's calendar was unfavourable (with fewer working days than in August 2024), so any strong positive number in annual terms would be a good sign.

While Moody's confirmed Romania's negative outlook with its sovereign rating, France's Fitch downgrade should have a greater impact on CEE markets. Currencies in the region have seen a significant narrowing of rate differentials in recent days, which we believe leaves FX exposed.

At the same time, growing concerns about the fiscal situation in Europe may spill over into the region, where Romania and Poland lead the EU in terms of public finance deficits.

Meanwhile, EUR/USD has stabilised somewhat in recent days, and we expect CEE currencies to open weaker today. Also negative for CEE currencies is the long positioning, especially in the Hungarian forint, as a result of low vol during the summer. We therefore see EUR/PLN heading towards 4.270, EUR/HUF back above 392, and EUR/CZK above 24.350.

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