

FX Daily: Exploring the dollar's downside

The signs are subtle, but bearish dollar momentum is starting to build. The DXY dollar index is now dropping through the lows seen in early August. Events this week such as the July FOMC minutes, payroll revisions, and Federal Reserve speakers could add to the dollar's losses. Investors may want to see how much lower they can drag the dollar into September



The dollar's decline looks to be part of an orderly adjustment cycle as the Fed prepares to cut rates

⬇️ USD: Price action is dollar negative

DXY is this morning breaking under 102.16 - the low seen during the flash crash of Monday 5 August. There is no flash crash underway today and instead, the dollar's decline looks to be part of an orderly adjustment cycle as the Fed prepares to cut rates.

Fed communication will be the headline story for this week. It starts today with some introductory remarks from our favourite Fed speaker, Christopher Waller, at 16:15 CET today. Wednesday then sees the release of the FOMC minutes from July - when the Fed switched to re-emphasising its dual mandate of both maximum employment and price stability. Friday then sees the main event of the week, where Chair Jerome Powell speaks on the economic outlook at the Fed's Jackson Hole symposium. In addition, Wednesday sees some [provisional annual benchmark revisions](#) to the payrolls report, which could see some downward revisions to job gains made in the year to March

2024.

While some may be arguing that the dollar does not need to sell off much further, since a Fed easing cycle to 3.00/3.25% is already priced, we would suggest caution in that the Fed cycle has not even started yet and any softer US data could mean Fed rates start to get priced at accommodative and not just neutral.

At the same time, dollar price action has been soft. Gains made on the back of last week's robust July retail sales have proved fleeting and today's dollar weakness is not being led by softer US rates. It therefore seems like speculators are looking to explore some broad dollar weakness ahead of what should be the first Fed cut on 18 September.

As mentioned above, the only event on the US calendar today are those remarks from Christopher Waller. Let's see if DXY can press 101.75 today, below which a move to 101.00 beckons.

Chris Turner

📈 EUR: Rising tide of dollar bearishness lifts EUR/USD

EUR/USD is now approaching its highest level of the year (1.1054, 3 January). Understandably there has been no major re-assessment of the euro's prospects and this is an entirely dollar-led move. In fact, this week's eurozone PMI releases should still show an economic bloc struggling to grow, with a composite PMI index stuck near 50. However, Tuesday sees the release of eurozone negotiated wages for the second quarter. Should these prove sticky, investors could start to rein in expectations of European Central Bank easing this year. Currently, another 68bp of rate cuts are priced this year - which we think is 18bp too much.

Back to the main story of dollar weakness. The default story here could be that EUR/USD will remain in its 1.05-1.11 range - a range that has dominated for the last 18 months. However, the Fed is just about to start easing and our economists look for weaker US activity data as ever-tighter US real interest rates bite harder. Should EUR/USD start to trade through 1.11, we would not underestimate its ability to follow through given that realised volatility has been so low, for so long.

Elsewhere, we've published our [latest thoughts on EUR/CHF](#). Swiss exporters think a fair level is 0.98. We think it will trade more in the 0.92/095 area as global interest rates converge on low rates in Switzerland - and whilst the market struggles to price the Swiss policy rate below the 0.50% area.

Chris Turner

➡ GBP: Dollar weakness, plus M&A activity may be helping

GBP/USD looks set for a retest of the year's high at 1.3045 as broad dollar weakness dominates global FX markets. We had thought that the Bank of England's dovishness could keep sterling gains in check. On that, BoE Governor Andrew Bailey speaks at the Fed's Jackson Hole symposium this Friday.

What we may be underestimating, however, is the demand for sterling coming through merger and acquisition activity. The UK this year is the target region for over \$200bn worth of deals. The impact of M&A on FX is a very cloudy one - e.g. to what extent a cross-border deal is funded

locally. But we suspect M&A may be one of the reasons why sterling is staying a little stronger than our baseline forecasts.

Chris Turner

CEE: The rally is done unless the payers return to rates markets

The second half of the month is usually quieter in the CEE region. This week, Poland and Turkey will take the spotlight. The calendar is empty for today and the first event this week will be the Central Bank of Turkey meeting tomorrow. We expect rates to be unchanged at 50% in line with expectations. There are continued challenges with the disinflation process, given administered prices, tax hikes and sticky services inflation. We think an improvement in monthly inflation trends, inflation expectations, and a more visible slowdown in economic activity may lead to the start of rate cuts from November. On Wednesday and Thursday, we will see monthly data in Poland including industry, wages, retail sales, and PPI. While the labour market is showing signs of easing with wage growth slowly falling, the economy is gradually recovering but there are still headwinds coming from abroad and from consumers.

CEE currencies saw strong gains last week, but we feel our bullish stance is running out of steam and we will need to see more momentum from the rates market for CEE FX to have room to rally further. Even though rates bounced a little off the lows last week, market expectations are still on the strong dovish side compared to our economists' forecasts. We think this is mainly the case in Poland, where we see the most room for interest rate payers in the CEE region. Although we would now prefer to be neutral on the Polish zloty and Czech koruna at current levels for the next few days after a strong rally, the return of rate payers could bring a further boost to these currencies. HUF rates witnessed this on Friday and the rate differential has once again returned to the highest levels since mid-July. This brings us back to the view that EUR/HUF could return to 390 ahead of next week's National Bank of Hungary meeting. However, the Hungarian market is closed today and tomorrow.

Frantisek Taborsky

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.