

FX Daily: Fed keeps market guessing over a 25bp or 50bp move

US August jobs data, plus two Fed speeches, caused quite a lot of intra-day FX volatility on Friday. But we are no closer to knowing whether the Fed will cut by 25bp or 50bp on 18 September. The focus this week will be on the US CPI data and Thursday's ECB decision. Perhaps most important for FX markets will be the first Harris-Trump TV debate tomorrow night



➔ USD: Holding pattern into tomorrow night's presidential debate

As James Knightley discusses in his [review of the data](#), the August US jobs report has failed to resolve the debate over whether the Federal Reserve will cut rates by 25bp or 50bp on 18 September. There's no doubt that it will cut at this point; Christopher Waller delivered one of his speeches on the economy on Friday, entitled '[The Time Has Come](#)', repeating the phrase used by Chair Jerome Powell at Jackson Hole. That speech was quite equivocal. While making the case that front-loaded (read 50bp) rate cuts could be appropriate if the data warranted, he seemed to be of the view that while the economy was still growing the case for aggressive rate cuts may not be

there. After many gyrations, the dollar and short-dated US yields are not too distant from where they started the day on Friday.

In terms of US data this week, we have NFIB small business optimism tomorrow and the highlight of the economic calendar Wednesday when we see CPI for August. Another subdued 0.2% month-on-month is expected for core CPI. But potentially one of the biggest market movers this week is tomorrow night's US presidential debate between Kamala Harris and Donald Trump. Joe Biden's poor performance in the previous debate in late June presaged a swing in the polls towards Trump and a firmer dollar. Please see our [US elections scenario analysis](#) for how asset markets could perform on Wednesday should there be a clear winner of the debate.

This all probably means the dollar remains in a holding pattern for the time being. We have noted before that seasonal patterns tend to be positive for the dollar in September – perhaps because of US corporate tax payment deadlines this month. And it seems it will now take an awful lot to see DXY break below 18-month lows near 100.

Chris Turner

➔ EUR: Holding pattern pre ECB

EUR/USD failed to hold intra-day gains on Friday as investors again struggled to take a clear view on whether the Fed will cut by 25 or 50bp. This week, the focus will be Thursday's European Central Bank meeting. Here, a 25bp cut looks like a done deal, while the quarterly forecast update should be the [main takeaway](#). Any big downward revisions to back-year inflation forecasts could hit the euro, but such a change in forecast is far from guaranteed.

Expect EUR/USD to not drift too far away from 1.1100 over the next couple of days with the US election debate perhaps the first big driver this week.

Chris Turner

⬇️ CEE: Inflation prints to set next direction

This week's focus in the CEE region will be on inflation. Tomorrow, the August numbers will be published in the Czech Republic and Hungary, and on Wednesday in Romania. On Friday, we will see the final inflation numbers in Poland. In the Czech Republic, we expect a slight decline from 2.2% to 2.0% YoY, narrowing the deviation from the Czech National Bank's 1.8% forecast by one-tenth. We expect a slight acceleration in core inflation from 2.2% to 2.4%. In Hungary, we expect a decent decline in inflation from 4.1% to 3.6% YoY. Meanwhile, core inflation should jump up slightly from 4.7% to 4.8%. Here too, however, the deviation from the National Bank of Hungary's forecast should narrow. In Romania, we expect inflation to fall from 5.4% to 5.0% YoY. And lastly, we should see confirmation of the 4.3% YoY flash estimate in Poland.

The markets are still rather driven by the global story, but we believe inflation numbers in the region could set the direction for FX. For now, we remain rather bearish on the region. EUR/HUF quickly reached our higher levels on Friday and although we think conditions do not point to further HUF weakness, we don't believe that market repricing is over yet. If inflation moves closer to the NBH forecast, it would signal further HUF weakness. EUR/CZK is resisting upward pressure for now indicated by the rapid decline in rate differential. However, we continue to see a tactical move up towards 25.20 before returning to our earlier view of heading below 25.00. We continue to see

EUR/PLN trading in the 4.270-280 range.

Frantisek Taborsky

➔ CNY: Investors struggle to be bullish

Very much driving the broad dollar sell-off in August was the recovery in Asian currencies. This was led by the resurgent renminbi. Those gains may have been largely driven by short-covering in both the currency and local Chinese equity markets. At the same time, we and others were discussing whether Chinese exporters were being dragged into hedging export proceeds, previously having taken the view that the renminbi was on a one-way path lower.

Yet the path to a stronger renminbi is far from clear. Chinese August CPI and PPI data came in very soft again and the local equity market, the CSI 300, is again under pressure and back to the February lows. Unless Chinese policymakers can find some stimulus from somewhere, it is hard to be very positive on the renminbi at this point.

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