# FX Daily: Gearing up for the next big move

Following Labour Day's thin volumes, the dollar is due to face several data tests this week. The first one is the ISM manufacturing today, which has been sluggish for a long time and may need to be quite disappointing to hit the dollar. On the euro side, there are few signs of concern about German political developments

The AfD's top candidate in Thuringia, Björn Höcke, on election night. Success for the German far-right party in the eastern state of Thuringia does not appear to be impacting the euro

## USD: First data test of the week

Currency volatility should pick up today as US markets re-open after the long Labour Day weekend and data releases take over. The big event of the day is the ISM manufacturing index in the US. Remember this has been in contraction territory (i.e. below 50) every month since October 2022, excluding a short-lived rebound in March this year. The slack in the manufacturing sector has been priced in for a while, and we'll probably need to see a rather soft number to trigger recession alarms and drive the dollar materially lower. The consensus is looking at a modest improvement in August, from 46.8 to 47.5.

One sub-index that we are monitoring closely is the ISM Prices Paid, which also experienced a spike this spring but has been subdued over the past couple of months. Consensus expectations are for a decline from 52.9 to 52.0, which should feed into the Fed's and the market's conviction call on disinflation.

Our calculations on CFTC future speculative positioning data show that the dollar has moved close to neutral positioning, with aggregate net longs against reported G10 currencies (i.e. G9 excluding SEK and NOK) now only amounting to 5% of open interest, as of 27 August. That is a substantial squeeze from 16% in early July and 24% in early May. When combining this notion with a Fed pricing that factors in one 50bp cut by year-end (100bp over three meetings), the case for another major leg lower in the dollar needs to be matched by rather bearish expectations on upcoming US activity data.

Our US economist is on the lower end of the consensus for payrolls on Friday, but before then there may not be enough bad news to take the dollar much lower. A flattening of DXY in the 101.50/102.0 range is our baseline until Thursday.

*Francesco Pesole*

## EUR: German politics not harming the euro

EUR/USD found some backing yesterday and given that part of its weakness at the end of August was likely due to month-end flows, support levels may prove sturdier at the start of September. Incidentally, a 2-year EUR:USD spread at -100bp is still some 20-25bp tighter than the end of July, and continues to offer a technical counterargument to bearish bets on EUR/USD.

Some of those bearish bets are related to the stagnant economic situation in Germany, but it seems that investors were rapidly reassured of the political situation after all other German parties appeared determined to keep the far-right AfD away from power after their win in Thuringia. At the same time, the ruling coalition appears increasingly weak, and we cannot exclude some damage to the euro from EU politics down the road. Especially when adding a likely turbulent EU budget season this fall.

For now, those like us seeing EUR/USD holding above 1.10 will be happy with some support ahead of key US data later this week. In the eurozone, the data calendar is empty today, and the only scheduled ECB speaker is German hawk Joachim Nagel.

*Francesco Pesole*

## GBP: No domestic drivers

The UK calendar is very quiet this week, and we expect the pound to move in line with global risk sentiment dynamics. Today, Bank of England MPC member Sarah Breeden speaks at an event on supervisory cooperation, so may not touch upon monetary policy. She has been standing on the neutral side of the hawk-dove spectrum and voted in line with the MPC majority at all meetings.

EUR/GBP is probably awaiting the catalyst for the next big move: either a break below the 0.8380 lows for the year or a return to the 0.85 area. We have generally seen more arguments for EUR/GBP to ultimately move back higher over the past few months, but admit that the BoE or UK data have not offered strong reasons for a material retightening in EUR:GBP rate spreads, meaning the risks are probably quite balanced for the pair in the near term.

*Francesco Pesole*

## CEE: Stronger FX despite fading growth momentum

Yesterday's PMI numbers showed slight signs of improvement in industrial sentiment for August in most countries, but still across the board remains well below the 50p threshold. At the same time, Turkey's second-quarter GDP delivered a negative surprise pointing to weakening momentum. This morning saw the release of the 2Q GDP breakdown in Hungary and later today we will see second-quarter wages in the Czech Republic, which we see rising 4.2% YoY in real terms, slightly below market expectations, while the Czech National Bank (CNB) expects 4.6%. This could be the first time in a while that a data print will have the attention of the CNB and could bring some volatility to the summer stable market levels. Also today, in Turkey, we expect inflation to drop again from 61.8% to 51.8% YoY, which is also the market's consensus, mainly due to the base effect and weaker food price growth.

After the US holiday, the markets are back in full mode and we maintain our bias from yesterday for CEE FX. PLN saw the biggest gains within the region following continued repricing up in the rates space ahead of Wednesday's National Bank of Poland meeting. We think there is more to come here plus EUR/USD showed some reversal limiting the negative impact from the previous days. Hence, we continue to be bullish on PLN but also CZK heading below 25.00 EUR/CZK.

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