

## FX Daily: Growing risks for high-beta currencies

Markets may need to get more concerned about a US recession to price in more Fed easing at this stage. While that can benefit JPY, CHF, and to a lesser extent EUR, we may see a net-negative effect on higher beta currencies vs USD as equities may take a hit in the process. Today, the main events are US job openings and another rate cut by the Bank of Canada



The Bank of Canada is widely expected to cut rates for a third consecutive meeting today. Pictured: BoC governor Tiff Macklem

### ➔ USD: Data tests continue

Markets got back into action after the US Labor Day with a defensive stance and risk assets coming under pressure. We saw a return of the textbook risk-off dynamics in FX: strong safe-havens (JPY, CHF, USD) and weak high-betas (AUD, NZD, NOK).

The US ISM Manufacturing was a [mixed bag](#) yesterday. The headline index rebounded slightly less than expected to 47.2, as new orders slumped to the lowest since May 2023. At the same time, prices paid were above expectations at 54.0. We'd be wary of overinterpreting a survey that has been in contractionary territory for 20 of the last 21 months: ultimately, it is well established that for growth momentum to extend into the second half of the year, it will be up to services to drive

it. With this in mind, the ISM services index tomorrow should have wider implications for the market's US macro assessment.

Today's main event is the release of US JOLTS job openings, which are seen slowing from 8,184k to 8,100k in July. This figure feeds into an important metric: the ratio of unemployed persons per job opening (here is the [BLS link](#)), which has risen from the 0.5 low of 2022-23 to 0.8 in June. In July, unemployment rose to 7.16m, meaning that the ratio will likely round up to 0.9 unless job openings surprisingly spike back to 8.42m. In the two years before the pandemic, the average was 0.8-0.9, so a move to 1.0+ (more unemployed people than openings) in the coming months would be a clear signal of labour market strain. The other event on the US calendar today is the Fed's Beige Book.

We have been warning of pockets of USD strength in an environment where markets are fully pricing one 50bp cut by the Fed this year and may need to get more concerned about a US recession to move more on the dovish side. The key here is that US recessionary bets may end up hitting equities and high-beta currencies more than the dollar. We think the yen and Swiss franc are in a stronger position compared to other G10 currencies.

*Francesco Pesole*

## ➔ EUR: Holding above 1.100 into key US data

As discussed in the USD section above, there is perhaps a narrower path at this stage for pro-cyclical currencies to benefit from a weaker US macro story. While we would favour JPY and CHF in this environment, the euro should still benefit from its liquidity conditions in a defensive risk environment and outperform higher-beta currencies. In other words, we are not as concerned for EUR/USD as we are for the likes of AUD/USD or NZD/USD that a softer US macro environment may have a net-negative impact due to the softer equities and a Fed pricing that is already dovish.

Our preference remains for EUR/USD to hold above 1.1000 into tomorrow's US ISM services and Friday's payrolls. If we are right about a softer payroll figure, then we should see it trade back above 1.110 by the end of the week.

The eurozone calendar is not very inspiring today. There are some final PMI reads for August and July's PPI data for the eurozone, which normally does not have a major market impact. On the ECB side, we'll hear from Francois Villeroy, who is generally considered neutral in the hawk-dove spectrum.

*Francesco Pesole*

## ⬇ CAD: Another cut by the BoC

The Bank of Canada (BoC) is widely expected to cut rates for a third consecutive meeting today. As discussed in our [BoC preview](#), we think the policy rate will be trimmed from 4.50% to 4.25%, in line with the consensus and market pricing. The Bank won't release a new set of economic forecasts at this meeting, so all of the market's attention will be on the forward-looking language used in the statement and press conference.

At the BoC cut in July, Governor Tiff Macklem was generally dovish on the rate outlook, stressing a greater focus on growth over inflation, and signalling there would be more cuts ahead. Since then, Canada had a soft employment read (-3k in July), cooler wage growth, and crucially another

slowdown in all key inflation measures, both headline and core. All those measures now range between 2.4% and 2.7%, so well within the BoC's 1-3% target range.

We expect Macklem to reiterate it is "reasonable" to expect more easing by year-end, effectively endorsing market pricing for rates to be taken to 3.75% by year-end – i.e. another two 25bp cuts after September. Our view is that the BoC is on a relatively predictable track to gradually ease policy to reach the 3.0% mark by mid-2025. That is also broadly in line with market pricing.

We doubt there will be huge implications for CAD from the BoC decision today. The risks are quite balanced given market pricing, and USD/CAD continues to be more responsive to US developments. We could see much more USD/CAD volatility on Friday when both US and Canadian jobs figures are released. For now, we continue to see USD/CAD as a 1.35-1.36 story in the near term, with risks slightly tilted to the upside as the external environment may not turn much more favourable for high-beta currencies like the loonie.

*Francesco Pesole*

## ➔ **PLN: Governor's dovish turn or just a wording adjustment?**

The only event on the CEE calendar today is the National Bank of Poland (NBP) meeting. In line with the market, we expect rates to be unchanged at 5.75% with little room for surprises. However, the statement following the decision may reveal some hints, but the main focus will be on the Governor's press conference tomorrow.

After July's decision, Governor Glapiński sounded exceptionally hawkish, stating that rates might need to stay unchanged until 2026. Other policymakers suggested rate cuts should start earlier, while government measures to prevent high energy prices next year should mean the inflation path is more favourable than the NBP thought in June.

More recently, Glapinski realised that there is probably sufficient support in the Council to discuss rate cuts in 2025 and amended his wording accordingly, surprising markets with his less-hawkish policy stance. Our economists still expect the first cut in the second quarter of 2025 and think that rates could fall by 100bp next year, especially if the energy shield is not fully withdrawn.

The markets – despite some repricing in recent weeks – are more on the dovish side with the first fully priced-in rate cut in January, which on the other hand is still within the range of possible scenarios if inflation and economic recovery surprise to the downside. It's not that long ago though when the markets were pricing in earlier rate cuts, and if the governor hints at a dovish turn, the market would be happy to move in that direction. However, recent interviews have suggested a rate cut this year as more of an alternative scenario and it is hard to imagine a complete turnaround from the governor. Therefore, we expect a rather neutral outcome for the markets for the rates after the statement and press conference.

FX on the other hand lost ground yesterday, as did the entire CEE region, but is on the stronger side in the medium term and should remain there, in our view.

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