

## FX Daily: Hawkish vibes from Asia

Governor of the BoJ Kazuo Ueda suggested the Bank may have enough evidence on wages for a policy shift by year-end. To us, it sounds like a successful attempt to support the yen. Meanwhile, the PBoC is pushing back against CNY weakness. All of this is softening the dollar momentum, but US data will be back in focus soon and USD upside risks are non-negligible



### ➔ USD: BoJ and PBOC drive dollar lower

The seemingly unstoppable dollar run is being dented this morning by two currencies that had all but contributed to consolidating USD strength until now: the yen and the yuan. The Bank of Japan's Governor Kazuo Ueda released an interview where he said policymakers may have enough information by year-end – if wage inflation continues – to make a decision on unwinding some monetary stimulus. The market reaction to this has been significant. The overbought USD/JPY is falling and testing 146.00, and the benchmark JGB yields are at 0.70% despite the BoJ deploying the loans-for-bonds programme to curb yields. The timing of Ueda's interview may suggest an intent to support JPY without deploying intervention – which wouldn't be warranted by an excessively concerning rate of JPY depreciation anyway.

In China, authorities are back with strong defence measures for the renminbi. This follows a

growing consensus later last week that the People's Bank of China was starting to tolerate further CNY depreciation as USD/CNY had rallied past 7.30. Alongside a significantly stronger CNY fixing, the PBoC issued a statement saying market participants should “voluntarily maintain a stable market” and avoid speculative trades. The general softening in USD momentum this morning has helped take USD/CNY back below 7.30.

This morning's change of direction in dollar dynamics has clearly been fuelled by moves from the BoJ and PBoC, but whether USD/JPY and USD/CNY can stay under pressure relies on the dollar's reaction to its own domestic drivers. This will be a busy week in US data, and the latest releases have tended to be quite supportive for the greenback.

The main highlight of the week in the US calendar is the CPI report on Wednesday, which is widely expected to show an August inflation rebound, and our economics team flags upside risks to consensus expectations. The core CPI print is expected at 0.3% month-on-month, an acceleration from the 0.2% MoM seen in recent months. There are no data releases to watch today, but we'll see the NFIB survey, retail sales and industrial production figures in the US later this week.

The FOMC has already entered the pre-meeting blackout period, but the latest indications clearly pointed to a pause in September. Can inflation change policymakers' minds? It would probably need to be a materially stronger than expected print, but from an FX perspective, expect the bullish pass-through to the dollar to be felt anyway. Markets can still add to the 11bp of tightening by year-end and push rate cut expectations further down the road. The two-year USD swap rate (OIS) may retest the 4.94% August highs and offset the efforts by the PBoC (likely to be a continuous one) and the BoJ (more likely a one-off move by Ueda) to lift their domestic currencies.

*Francesco Pesole*

## ➔ EUR: Some support before the ECB

It's ECB week in the eurozone, and there is a growing sentiment that this will be a very tight decision. The governing council is clearly facing growing division as some signs of lingering inflation are met by evidence of an economic slowdown, which recently strengthened the dovish front. Our economics team thinks that while it's a close call, the European Central Bank should deliver one last 25bp hike (here's our [full preview](#)). Market pricing is 10bp ahead of the meeting and 18bp of total tightening by January. Still, we think the chances of the ECB skipping this meeting and hiking later on are relatively slim given the rapidly worsening outlook.

EUR/USD has been given some life by the PBoC and BoJ, with USD softening and EUR/USD finding support into the 1.0700/1.0750 area. The pair can remain supported for today given the lack of major data releases, but we have seen evidence of the unwinding of speculative EUR positions into the ECB meeting. Given the upside risks for the dollar ahead of the US CPI release, we suspect another drop below 1.0700 before the ECB announcement on Thursday is all but possible.

*Francesco Pesole*

## ➔ GBP: Data check this week

The pound emerges from a difficult week where the dovish rhetoric ahead of future Bank of England decisions consolidated and markets continued to scale back tightening expectations. It must be noted that the largest contributor to the dovish re-pricing in the GBP curve has been the

BoE's own communication, which seemed to shift more in favour of a higher-for-longer rather than a higher peak.

One bit of data that endorsed the dovish narrative came from the BoE's Decision Maker Panel survey, which showed a widespread [decline in inflationary pressure](#). But the BoE has made clear that it's hard data that matters, and this week's UK calendar will be quite helpful in that sense. Wage and jobs data will be the key release tomorrow. Private sector wage growth currently stands at 8.2% and looks likely to remain unchanged, but there's an outside risk that we see this nudge slightly lower. The unemployment rate may also nudge a bit higher.

All that may fail to invert the dovish trend on UK rate expectations ahead of next week's Bank of England's policy meeting, although the pricing has already dropped quite substantially (16bp priced in for September, 35bp to a peak). Our economics team still thinks the BoE will go ahead with a hike this month. Inflation figures are out one day before the meeting, so while more GBP weakness is possible around this week's data releases, next week could see some recovery. EUR/GBP may be trading well above 0.8600 once we get to the BoE meeting.

*Francesco Pesole*

## ➔ NOK: Inflation slowdown not too important

Norwegian CPI slowed more than expected in August. Data released this morning showed headline inflation easing from 5.4% to 4.8% and underlying inflation from 6.4% to 6.3%. The consensus was for an acceleration.

All this casts some doubt over how far Norges Bank will go ahead with further monetary tightening. At the latest policy meeting, policymakers signalled they will likely raise rates again in September, and that should be the last hike according to their projections. Inflation is not as important for Norges Bank as it is for other central banks since the NB operates with a model-based approach that puts a big weight on FX and oil price moves. We doubt these inflation figures will convince the NB to pause this month.

The recent depreciation in NOK is surely not welcome by policymakers in Norway, and while not alarming, NB should still prefer to leave the door open for more tightening, especially given the FX daily NOK sales are unlikely to be scaled back materially by year-end. EUR/NOK may stay supported around 11.40 for now.

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