FX Daily: Hot inflation may only give short-lived support to dollar

We expect a 0.4% month-on-month core CPI print in the US today, above the 0.3% consensus. That should offer the dollar support, but we don't think that will prompt markets to seriously price out a September cut, meaning we can see decent buying in the EUR/USD dips. Headlines on upcoming US-Russia-Ukraine talks also remain relevant for markets

USD: We expect 0.4% MoM core CPI

The dollar has found some support ahead of today's US CPI release. Some of this may reflect profit-taking in still relatively crowded USD shorts, as well as President Trump's decision to extend the tariff pause on China by another 90 days. Also contributing could be Trump's attempt to downplay expectations for Friday's summit with Putin, calling it a "feel-out meeting" to gauge Russia's demands, and adding "that'll be the end" if no agreement is reached. Markets had possibly priced in a slightly more optimistic stance on a quicker resolution.

We'll continue to monitor headlines into Friday – Trump speaks with Zelenskyy tomorrow – as FX remains somewhat sensitive to geopolitical developments. Still, as discussed yesterday, data should remain the primary driver for USD. We expect a 0.4% MoM core CPI print today, above the 0.3% consensus. That would push YoY core inflation from 2.9% to 3.1%, and headline from 2.7% to 2.9%.

Despite some positioning rebalancing ahead of the release, a hotter-than-expected print should still support the dollar, as markets may revise down expectations for a September Fed cut to below 20bp. However, we think labour market data is more influential than inflation, given the consensus view that tariff-induced price shocks are transitory and last month's large payroll revisions. So even a 0.4% MoM core print could still be consistent with a September cut – if accompanied by further labour market deterioration.

For that reason, our above-consensus inflation call doesn't translate into expectations for a sustained USD rally. We see any support as short-lived. Also on today's US calendar: the NFIB Small Business Optimism Index and July's Federal budget data.

Elsewhere, the Reserve Bank of Australia cut rates by 25bp as widely expected. The AUD is slightly weaker, with markets interpreting the RBA's downward revisions to inflation and growth as a dovish signal. However, Governor Michele Bullock kept forward guidance open-ended and data-dependent. Given already aggressive easing expectations, we remain constructive on AUD over the coming months.

Francesco Pesole

EUR: Eyes on ZEW and Ukraine headlines

This morning we'll see an important gauge of the impact on eurozone sentiment of the US-EU deal in the German ZEW release for August. Consensus is for a deterioration in both the current situation (from -59.5 to -67) and the expectations gauge (from 52.7 to 39.5).

Remember that the ECB does incorporate activity surveys into its economic assessment, and should a ZEW fall be followed by drops in IFO and above all PMIs, some dovish dissent in the ECB may start to remerge.

But that is more a story for September given the lack of ECB communication in August and a still muted inflation backdrop. For now, the euro continues to be affected (albeit not in great magnitude) by the Russia-US headlines. We expect today's US CPI to bring EUR/USD back below 1.16 with risks skewed to a test of the 1.150 support if the Putin-Trump summit yields few results on Friday.

Francesco Pesole

GBP: Acceptable jobs numbers

The UK released July jobs data this morning. Payrolls fell by just 8k – best since January – and June was revised up to -26k (from -41k). This aligns with recent hiring surveys showing signs of recovery.

While the labour market is cooler than earlier this year and softer than in other major economies, there's no clear signal yet for the Bank of England to accelerate rate cuts. As seen in August, the MPC remains relatively unfazed by jobs data. We're still expecting a cut in November, but stronger payrolls or hotter inflation could delay further easing.

Sterling is trading on the strong side this morning as jobs figures were seen as slightly upbeat, and EUR/GBP may well test 0.860 in the coming days. Nevertheless, we expect a return to 0.870 later in the summer on the back of our BoE call.

Francesco Pesole

RON: Inflation unexpectedly jumped ahead of the first fiscal hit

Today, the CEE region is focusing on Romania. This morning, inflation figures were released, with the headline rate jumping from 5.7% to 7.8% YoY, exceeding all market estimates. In month-on-month terms, inflation increased from 0.45% to 2.68%. The increase is primarily due to a rise in non-food goods (5.1% MoM) following the expiry of the electricity price cap at the beginning of July. But some increase is visible in service prices as well, while food prices slow down a bit.

Today's inflation figure is all the more interesting given the expected increase from August due to the government's consolidation package, which raises some taxes, including VAT. Therefore, we expect inflation to continue to rise in the coming months, peaking in September and October. Today's figure is therefore very likely to push the peak inflation rate significantly above our previous estimate of 8.2% in the coming months.

The reason we are talking about this is also the new inflation report from the National Bank of Romania and today's presentation by the governor. We will be looking for signs of how the NBR perceives the coming inflation, which should be one-off, and at the same time slowing down the economy. We expect the central bank to look through the current bump in inflation and simply prolong the wait for a rate cut. But the central bank does not only have interest rates in its toolkit.

Attention will also be on liquidity management and FX. We see that the banking sector returned to a slight liquidity surplus in July after an unusual deficit in June, and the situation is thus continuing to normalise. However, if the central bank takes a hawkish stance or inflation surprises on the upside in the coming months, this will likely be the central bank's first line of defence, and we would see a renewed tightening of liquidity and a rise in FX forwards. For now, however, the EUR/RON spot rate remains firm at around 5.070, and the situation appears stable, at least for the summer.

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