

FX Daily: Liquidity-fuelled rally trumps geopolitics

Risk assets continue to rally even as new geopolitical risks emerge. Ultimately, this is a bearish story for the dollar, but for today, focus will be on the August US PPI data and speeches in Europe. These include a State of the Union address by EC President Ursula Von der Leyen and a speech by the SNB governor. Expect more consolidation in FX markets



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➔ USD: Treading water

The dollar is treading water ahead of tomorrow's US August CPI release. Geopolitical developments are having limited influence on FX markets at the moment, with three notable examples worth mentioning. Israel's targeting of the Hamas leadership in Doha saw a brief spike in energy prices. But unless Gulf countries retaliate, which is very unlikely, we don't see this having a lasting impact on energy markets. We've also had news this morning that Poland has shot down Russian drones in its airspace. EUR/CHF remains offered, but hasn't broken to fresh lows. Lastly, we note that US President Trump is urging the EU to place 100% tariffs on China and India for purchasing Russian crude. That seems unlikely to happen, and the EU is readying its nineteenth package of sanctions targeting Russian shadow fleets and its banks.

Away from geopolitics, risk assets remain in rude health. Helping US equities have been some stellar results from Oracle, where its data centre business is performing well and supporting the hype in AI investment. And the prospect of the Fed cutting rates by 125-150bp over the next nine months can only support leverage and demand that asset managers remain fully invested to earn their fees. This is a benign, bearish environment for the dollar.

Today, the focus is on the US August PPI. 0.3% MoM is expected for the core and headline readings. We doubt any upside surprise will sustain a dollar rally for long now that the market has become convinced the Fed will be cutting next Wednesday. Yesterday's [big downward revision to the US jobs data](#) cements that view.

Expect DXY to remain supported near 98.00, though we have a slight bias that it ticks higher into the end of the week.

Chris Turner

➔ EUR: dollar story dominates over French politics

Uncertainty in French politics has seen the OAT:Bund 10-year government spread settle above 80bp. French 10-year government borrowing costs now match those of Italy. We cannot rule out a further sell-off in French debt as France looks for a new government, but we do not see this as a euro-wide crisis. Here's an interesting note our team published on [Belgium yesterday](#). As such, we think the pro-global risk/soft dollar environment remains the dominant theme for EUR/USD.

The eurozone data calendar is quiet ahead of tomorrow's ECB meeting. We do, however, have the State of the European Union address from Commission President Ursula Von der Leyen. No doubt the focus will be on military strength, but we wonder whether she will touch on some of the themes we discussed in our [global euro](#) report released last week.

Expect EUR/USD to continue trading around the 1.1700 area - though we don't rule out a very temporary dip to the 1.1630/50 area later this week.

Elsewhere in Europe, Swiss National Bank (SNB) Governor Martin Schlegel speaks at a banking conference at 1345CET today. Presumably, he'll adopt the same tone he used in a magazine interview on Monday, which we saw as [CHF bullish](#).

Chris Turner

⬆️ GBP: Quietly outperforming

After all the gyrations in bond markets last week and predictions that the UK would need an IMF bailout, conditions have settled down. Gilt auctions seem to have been going well, showing that the UK has no problem servicing its debt if the price is right. Today sees £4bn of six-year Gilts auctioned, for reference.

EUR/GBP remains well contained in a 0.86-0.87 range. Sterling's high-yield status makes it an expensive sell, and unless there is some imminent bad news expected, sterling can hold its own at these levels. Next week's Bank of England rate meeting should, in theory, keep sterling supported unless upcoming jobs and CPI releases very much surprise on the downside.

We're still happy with our calls that EUR/GBP ends the year near 0.87 and GBP/USD near 1.38 as

the dollar bear trend dominates.

Chris Turner

EMFX: Carry remains en vogue

Low volatility and the prospect of more available liquidity after the Fed cuts rates are keeping carry trade strategies very popular. Using the dollar as a funding currency, an equally weighted basket of Turkish lira, Egyptian pound and Hungarian forint has returned 3.6% quarter-to-date – largely through the interest component. A big court case in Turkey on 15 September is an event risk here, although we believe the Central Bank of Turkey will be able to manage any outflows here.

It is very hard to argue against carry trade strategies at this stage.

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