

FX Daily: Making the renminbi great again

Wednesday saw no further progress in the administration's removal of the Fed's Lisa Cook. The FX environment remains choppy, but we note the continued low fixings in USD/CNY – seemingly a move by Beijing to preserve the purchasing power of households and boost consumption. Elsewhere, healthy car sales data in Germany can provide some support to the euro



➔ USD: Choppy month-end conditions

Having been a little bid early yesterday, the dollar has come back broadly offered. Short-dated US yields remain near their recent lows, and most would conclude that this week's removal of the Fed's Lisa Cook by President Trump is dollar-negative. It is hard to see the debate not falling across partisan lines, with some of the most excoriating criticism of the White House action coming from the likes of former Fed and Treasury representatives Janet Yellen and Lael Brainard – both Democrats. The Cook issue looks set to be tied up in court for the remainder of the year, with the key point being whether she can continue to vote on the FOMC during this period. Alongside Stephen Miran's recent appointment to the Fed governing board, 17 September is shaping up to be quite a meeting.

We have not seen much follow-through selling of the 30-year Treasury bond over the last 24

hours. Nor have we seen a substantial pick-up in market-based measures of medium-term inflation expectations. Those expectations derived through the USD 5Y5Y inflation swap are still below 2.50%. But these should be the securities to monitor whether inflation expectations are becoming unanchored on the assault on the Fed's independence – and whether a 25bp Fed rate cut in September is a done deal after all.

For today, we could see a small upside revision to the 3.0% QoQ annualised US GDP figure. We'll also get weekly jobless claims and pending home sales. If the dollar gets a brief lift from this data, we doubt that the rally lasts. Tonight at 2400CET, the Fed's Christopher Waller gives a speech on monetary policy. He's now a dove (and a Republican) and could turn even more dovish after the July jobs report validated his concerns over the weakening labour market.

Along with the advancing Chinese renminbi providing support to the whole EM complex (see below), we have a slight downside bias on the dollar, especially USD/JPY. We can't help but see volatility picking up in September, which will help the yen. And the most recent Bank of Japan commentary suggests conditions are moving towards a rate hike in October – an outcome which is only 50% priced today.

145 remains our USD/JPY target and DXY could make a swing back towards the 97.50 area.

Chris Turner

➔ EUR: Car sales a reminder that the consumer is ok

At the weekend, ECB President Christine Lagarde gave a reasonably upbeat interview to *Fox News*. She said consumers and businesses were resilient and that whilst growth was not particularly strong, the signs were optimistic. Those comments are a reminder that European unemployment is low and that the consumer savings ratio is relatively high. Welcome news, therefore, comes today in the July EU car sales data. Growth for the EU was 7.4% YoY and 5.8% for the eurozone. The biggest spender on cars is the German consumer, where sales grew 11% YoY. Let's see whether there's any improvement in eurozone consumer confidence data released this morning.

Also on the agenda is the release of the ECB minutes from the July meeting. That meeting saw a 5bp jump in short-dated EUR swap rates, but limited fallout on EUR/USD at the time. Since then, short-dated EUR rates have moved another 10bp higher – and probably don't need to move too much more on today's minutes.

The euro is also facing a little baggage from [French politics](#). However, we think the dollar trend will dominate here and EUR/USD should find support under 1.1600 into September. EUR/CHF is also making life [very uncomfortable for the Swiss National Bank](#), but it will probably manage to find some way to keep it supported below 0.93.

Chris Turner

⬆️ CNY: A considered move from the PBoC

Even though the model-based estimates of where the People's Bank of China should be fixing USD/CNY are not moving much, the PBoC is fixing USD/CNY decidedly lower. It seems increasingly clear that Chinese authorities want a stronger renminbi.

Why is that? The stronger renminbi could be Beijing's signal of 'a responsible adult being in the

room' when it comes to currency policy – a move to improve the renminbi's status in international finance. It also provides a welcoming environment for international capital. Global investors are running overweight emerging market positions currently, with China a large weight in any decision.

But as Lynn Song, ING's Greater China economist, notes: "A stronger CNY will help preserve purchasing power of households at a time when boosting consumption looks to be an important medium-term goal."

That makes a lot of sense. For FX markets, a stronger renminbi could carry the likes of the South African rand, Australian dollar and Brazilian real on its coattails. We like those currencies, as long as equity markets remain benign. And clearly, there are downside risks to our year-end forecast for USD/CNY at 7.13.

Chris Turner

📌 PLN: Market preparing for next year's budget

Yesterday, after some radio silence from the central bank in August, the only month when the National Bank of Poland does not hold a meeting, MPC member Henryk Wnorowski mentioned in an interview that he sees room for only one 25bp rate cut this year. This should come at next week's September meeting, and we should see a pause for the rest of the year. Although our economists are probably more optimistic about inflation for the rest of the year than the NBP, the main drivers for now will be today's publication of next year's state budget and tomorrow's August inflation figures.

The media most often mentions a deficit of around PLN300bn, which would mean 6% of GDP. We should see an effort to reduce the deficit compared to this year due to the Excessive Deficit Procedure. However, this year's budget is also in question due to the visible deviation of execution from the target according to July figures. Although the Ministry of Finance ruled out work on revising this year's budget last week, it would not be a surprise to us if we saw some changes in this year's figures today as well, which would likely be negative news for FX and bonds.

Tomorrow, August inflation will be released, which should show only a slight decline from 3.1% to 2.9%, mainly due to lower food and fuel prices. The market is pricing in roughly 50bp this year and a terminal rate of 3.65% at this point. Although this is close to our economists' forecast, the NBP may play the hawkish card for a longer period of time and argue for a high fiscal deficit in the short term. Yesterday, we saw the PLN underperform its CEE peers despite hawkish comments from the NBP. The market is likely taking a cautious position on the budget and negative fiscal outlook. On the other hand, the NBP may support the FX later. Weaker PLN levels above 4.270 may be attractive for next week's meeting.

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