

## FX Daily: Market running short dollars into this week's event risks

Positioning data suggests investors are running reasonably large short dollar positions into this week's Fed, ECB and BoJ policy meetings. We do like a weaker dollar later this year, but the dollar's recent corrective rally might endure this week if the Fed hangs onto its tightening bias. For today, look out for European PMIs



### ➔ EUR: PMIs in focus

Our colleague, Carsten Brzeski, has just published his preview for this [Thursday's European Central Bank \(ECB\) meeting](#). Given what could be a mildly hawkish Fed event risk on Wednesday and the prospect of the ECB less than wholeheartedly backing the idea of a follow-up September rate hike, we see some downside risks to EUR/USD this week. The FX options market suggests there should not be fireworks, however. The combined 24-hour trading period capturing both the Fed and the ECB decisions only sees a 60 USD pip range priced by the FX options market. As a result, we think this EUR/USD correction may only extend to the 1.1050 area.

Today, it is all about the July flash PMIs in Europe. Consensus is slightly pessimistic, expecting another sub-50 reading for the eurozone composite PMI after it reverted back into contractionary territory last month.

*Chris Turner*

## 📈 USD: Short dollar positioning looks quite heavy

It's a big week for FX markets given looming rate decisions in the US, the eurozone and Japan. The dollar goes into these meetings in a slightly corrective mood and retracing some of the sharp losses after the release of the soft US June CPI report earlier this month. What might support that corrective mood is market positioning, where the latest data from the FX futures markets in Chicago suggests that asset managers are running their largest short dollar position on record when aggregating their positioning across eight FX futures contracts. We also happen to see some upside risk to the dollar this week [from Wednesday's FOMC meeting](#), where we think it's still too early for the Fed to switch to a data-dependent approach to any further rate hikes.

This week also sees US consumer confidence, second quarter GDP revisions and the second quarter Employment Cost Index. As always, the dollar story is driven by the push-pull factors of the US versus the Rest of the World (RoW). Unless we get some upside surprises in European PMIs today or Chinese authorities announce some overwhelming stimulus measures at Friday's Politburo meeting, it looks like the dollar can continue in this corrective/slightly bid tone.

DXY looks like it could grind higher to the 101.50 area.

*Chris Turner*

## ➔ GBP: BoE re-pricing might have come far enough for the time being

Sterling has been under pressure over the last week on the back of the re-pricing of the Bank of England (BoE) rate cycle. Here, expectations for the Bank Rate at the end of this year have dropped from a 6.35% peak to now 'just' 5.88%. Given the lack of top-tier UK data this week and what could be a slightly hawkish Fed meeting on Wednesday, it may well be that the repricing of the BoE rate cycle and sterling softness have come far enough for the time being. This could see EUR/GBP correct back towards the 0.8600 area.

GBP/USD could correct to the 1.2670/2700 area this week if the dollar correction does run a little further on the Fed story.

*Chris Turner*

## 📈 CEE: Recovery despite global story

This week, the calendar is light again in the region and the focus will be on the global central bank story. But before that, today we will see consumer confidence in the Czech Republic. Tomorrow, the Hungarian National Bank will meet and we expect the cutting cycle to remain unchanged, i.e., 100bps in the effective rate to 15%. Tomorrow we will also see labour market data in Poland and Hungary. In the Czech Republic, we can expect a few Czech National Bank (CNB) speakers ahead of Thursday's blackout period. Otherwise, market attention will be driven by the global story.

In the FX market, we saw the region's rally stall last week, with the Hungarian forint and Czech koruna in particular weakening once again. The National Bank of Hungary meeting should be the main driver for the forint this week and we expect a hawkish tone versus market expectations to be positive for FX. The forint remains our favourite currency in the region due to by far the highest carry and attractive current levels. Moreover, we see the forint lagging behind Friday's renewed

improvement in market conditions. Thus, in the short term, we expect a pullback back to 370 EUR/HUF. A stronger US dollar as a result of central banks in the second half of the week may be a problem and might also be an obstacle for the Czech koruna. However, it could be supported by the hawkish remarks of the CNB board members, so we expect a recovery from the weakest levels since March this year to 23.90 EUR/CZK.

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