

FX Daily: Markets giving peace a chance

Despite the Western press describing Friday's meeting as a 'failure', financial markets are continuing to trade like there could be some – still undetermined – path to peace. Benign conditions look set to continue, given a quiet week for data and focus on Friday's Jackson Hole symposium – presumed dovish. Expect the dollar to stay generally offered



Financial markets appear to be taking a less critical view than the Western press of last week's US-Russia meeting in Alaska

📌 USD: Benign conditions should keep the dollar offered

The Western press was quick to conclude that Friday's summit between US President Donald Trump and Russian President Vladimir Putin was a failure in that Trump had been dragged down an off-ramp away from a ceasefire and renewed Russian sanctions. Financial markets are taking a less critical view, however. EUR/CHF has largely held onto the gains made late last week, CEE currencies are looking to stay bid, and oil and gas prices are staying offered. European and US equity futures are trading modestly in positive territory after a good night for Asian equities.

We're no geopolitical experts, but if there was one positive piece of news to be taken from this weekend's events, it was the remarks made by US special envoy Steve Witkoff that Russia would accept a NATO-like US security guarantee for Ukraine. Ukraine and Europe have made security guarantees (including those from the US) central to any path toward peace. Any further clarification of this situation today could be welcomed by markets, even though the issue of territory seems intractable.

This is all happening amidst a benign global backdrop in financial markets. Confidence that the Federal Reserve is ready to cut two or three times this year sees investors happy to remain long risk assets. Volatility is low across asset classes, credit spreads remain tight, and emerging markets are in demand. Without much fanfare, Chinese benchmark equity markets are pushing up to the highest levels in a decade as investors seem happy to look through the impact of tariffs and welcome the prospect of stronger domestic demand in the Rest of the World – powered by rate cuts and looser fiscal policy.

This is a negative backdrop for the dollar, and we expect it to remain gently offered this week. Away from geopolitics, the data calendar is relatively light, but there will be much focus on Fed policy. Wednesday sees the release of the minutes of the July FOMC meeting, where two dissented for a 25bp rate cut.

Of greater interest, however, will be Chair Jerome Powell's speech at the Jackson Hole symposium this Friday afternoon. As James Smith discusses [here](#), it may be too early for Powell to all but confirm a Fed rate cut in September. Yet when the facts of a 'solid' labour market change, Powell will have to acknowledge it. There are a few other Fed speakers before Friday, but Christopher Waller's speech on Wednesday looks to be on the payments system at a blockchain conference rather than the economic outlook.

With risk assets bid and energy prices offered, we expect the dollar to stay under a little pressure as dollar-based investors continue to put money to work. DXY to trade offered in narrow ranges, before potentially breaking down below 97.00/97.10 on Friday.

Chris Turner

📈 EUR: Europe's glass seen half full

European currencies seem to be holding onto recent gains. Whatever the news from Washington today, what is welcome is the decline in oil and gas prices. Remember it was the surge in oil and gas prices in the summer of 2022 – and the negative terms of trade shock to the eurozone – which sent EUR/USD below parity. Unless Ukraine-Russia negotiations really fall apart and Trump's 'over-familiarity' with Putin does a U-turn to send oil prices higher, we think benign global conditions can keep EUR/USD gently bid.

In terms of eurozone inputs this week, the data highlights will be the August flash PMIs on Thursday. We'll also be looking at tomorrow's release of the June Balance of Payments data to monitor whether foreign appetite for eurozone assets remained as strong as it did in May. Wednesday sees European Central Bank President Christine Lagarde speaking in Geneva. Financial markets barely price in one further ECB rate cut over the next 12 months, and we doubt Lagarde will rock the boat with her speech.

EUR/USD should stay gently bid in a 1.1650-1.1750 range through the early part of the week, but could make a run at the 1.1830 should Powell prove sufficiently dovish on Friday.

Chris Turner

➡ GBP: Hawkish BoE resonates

EUR/GBP is looking more comfortable at the lower end of a 0.8600-0.8700 range. Driving that is newfound and credible hawkishness from the Bank of England, which now has the market pricing

just 50bp of further easing. This compares to the approximate 125bp easing priced for the Fed through 2026. Some sticky UK inflation for July looks unlikely to alter the market's view of the BoE over the coming days. This should keep GBP/USD bid this week, where a break of 1.3585/3600 could see 1.3680/3700 by the end of the week.

One wild card this week is Fitch's UK sovereign rating review after the close this Friday. More on that later this week.

Chris Turner

➔ CEE: Before more headlines the region may trim some gains

With the second half of the month approaching, this week is expected to be quiet, and attention will once again focus on global developments, the implications of Friday's talks between the US and Russia, and the Jackson Hole conference.

Today, core inflation figures for July in Poland and PPI figures for the Czech Republic will be released. According to our estimates, core inflation fell from 3.4% to 3.3% year-on-year.

On Thursday, Polish wage and industrial production figures will be released. While wages are expected to continue to decline, industrial production should see some kind of rebound. However, industry has been surprising on the weaker side in recent months.

Friday's talks between the US and Russia sent mixed signals for future developments, and it is difficult to predict how the market will react – especially in the CEE region, where we have seen some positive pre-positioning. Betting portals show that probabilities for a ceasefire between Ukraine and Russia this year have fallen since Friday's talks, but are still significantly higher than they were before the talks were announced.

Of course, it will be important for CEE currencies to hear about developments in Washington today. Overall, however, we are inclined to believe that the CEE may be at risk of handing back some of the gains from previous days today, especially the Hungarian forint. Nevertheless, it is clear that the playing field is very uncertain in the CEE region, and the market will be reluctant to take risks, in our opinion.

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