

FX Daily: More volunteers to support the US dollar

Data confirms the strength of the US economy and today's industrial production and FOMC minutes can only add fuel to the fire. The US dollar is the clear winner here and we are hardly looking for firepower in the eurozone to defend the euro. In the CEE region, Poland returns from holidays and the Czech koruna is the only one able to resist negative global factors



📈 USD: FOMC minutes and a strong economy should offer further support

Another nudge coming from the positive surprise in US retail sales did not last long and the US two-year yield slipped back down after touching the 5% level. This kept the US dollar index near 103.00, however, another hawkish test may come again today. Industrial production, after a 0.5% month-on-month drop in June, should show a return to 0.3% MoM growth in July in our view, in line with market expectations. Retail sales already [indicate](#) 3% GDP growth in the third quarter in our view and estimates for industrial production are also supportive of another positive surprise, confirming the strength of the US economy, which would be more positive news for the US dollar, of course.

Later today, the July Federal Reserve minutes will come into play, which should reflect the FOMC's

hawkish efforts to combat dovish expectations. This should be the last big event from the Fed until next week's Jackson Hole symposium. For now, this strategy is working perfectly. The implied policy rate has moved up roughly 50-60bp over almost the entire curve in the last month alone, with the exception of the super-short horizon. However, it is just a matter of time before the Fed uses up its ammunition and the market stops buying more hawkish news. For now though, we remain in this mode for at least the next few days, which combined with the positive surprises from the economy, should continue to support the US dollar.

Thus, DXY should remain above 103.00 and test higher levels closer to 103.50 today as well.

Frantisek Taborsky

⬇️ EUR: Hard to find forces to defend the euro

The calendar doesn't have much to offer in the eurozone today, resulting in a lack of impetus to defend the euro. The second-quarter GDP estimate and the headline industrial production number are unlikely to change the picture much and so the ball remains in the US court today. At least the 2y rates differential against the USD has flipped in support of the euro or at least should not push EUR/USD any further down. However, if the strong condition of the US economy is confirmed, it will be hard for EUR/USD to resist breaking 1.090. That should be the line in the sand today as well.

Frantisek Taborsky

➡️ PLN: Damage control after a closed market

We have GDP data in the region with second-quarter results across the board. We expect -0.3% year-on-year in Poland, -1.2% YoY in Hungary and +2.4% YoY in Romania, all more or less in line with market expectations. To complete the picture, the Czech Republic reported -0.6% YoY earlier. Also later today, core inflation in Poland will be released. We estimate that core inflation moderated to 10.5% YoY from 11.1% YoY in the previous month.

The Polish market opening after yesterday's holidays and Monday's limited trading will be especially interesting. By comparison, Czech rates have strictly followed core rates in the last two days and the Polish market should catch up today. But at the same time, yesterday the Polish zloty almost touched the upper boundary of the long-term range of 4.40-4.50 EUR/PLN, which we last saw in early July. As we mentioned earlier, for the entire CEE region, the US dollar still seems to be the main driver, indicating weaker values across the board. At the same time, yesterday we saw gas prices jump back to 40 MWh/EUR following news from Australia, again not signalling positive conditions for CEE FX. On the other hand, the interest rate differential is starting to play a role in the region again after some time and if PLN rates catch up after the close of trading, EUR/PLN should stave off touching the 4.50 level and return to 4.46. But a stronger US dollar on more negative news for EM FX is a clear risk here.

Frantisek Taborsky

⬆️ CZK: Koruna is only one in the region to resist global influences

The Czech koruna is the only currency in the CEE region that has surprisingly resisted losses. The widely expected depreciation after the end of the Czech National Bank's intervention regime two

weeks ago did not come and, moreover, the strong US dollar does not seem to be weighing on the koruna. The balance sheet data also refutes any suspicions that the central bank would be active in the market again and prevent the CZK from weakening. IRS rates are following US rates in a rapid pace upwards, which was probably helped by the very stretched dovish expectations earlier.

Plus, it appears the CNB hawkish story may have one more mini episode thanks to the spike in fuel prices following the August excise tax hike. This, by our calculations, could lead headline inflation above the CNB's forecast, whereas so far inflation has basically only surprised to the downside in recent months. Thus, the market may later find the current upward correction in rates to be justified. But it is too early to tell.

For now, however, the interest rate differential in the Czech Republic seems to be the only one on a significant upswing, supporting FX. Based purely on yesterday's rate move, our model indicates that this could be enough for the koruna to move below 24.0 EUR/CZK for the first time since the last CNB meeting. Of course, the Czech Republic is not in a vacuum and a stronger US dollar or higher gas prices could also have an impact here, but for now it seems to be an island of safety in the region.

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