

FX Daily: Muddling through

Risk assets are marginally better bid as troubled Chinese property developer, Country Garden, is reported to get a reprieve on bond payments and investors expect good demand for British chip designer ARM's IPO in New York. Yet oil could push higher today on OPEC August production figures and we doubt the market wants to chase the dollar too much lower



USD: Focusing on OPEC production figures and the NFIB survey today

The dollar softened a little yesterday as investors seemed to put money back to work in equities. Some of the recent underperforming currencies such as the Australian dollar and Mexican peso enjoyed decent rallies - both currencies [we like on a medium-term basis](#). That mildly optimistic trend has continued overnight, where troubled Chinese property, Country Garden, is reported to have received creditor support for a three-year extension on some of its yuan-denominated bond payments. The idea of a China property crisis somehow spiralling into a full-scale banking crisis has ebbed over the last month, where China's 5-year USD sovereign default swap has corrected back to 71bp from 87bp last month.

Looking ahead today, we should expect a quiet session ahead of tomorrow's [August US CPI release](#), where our US economist, James Knightley, warns of upside risks to the core number. Before that, however, we are focusing on two releases today. The first is the August NFIB small

business optimism release, where we will look for any signs of easing in the US jobs market - especially on compensation. The second is the release of OPEC's oil monthly report, [where our commodities team feels](#) we could see lower oil August production numbers for OPEC. That could put Brent crude prices even higher and tend to favour the dollar against the euro and the yen again. For that reason, we could see DXY edging towards the top of a 104.50-105.00 short-term range.

As to the more medium-term picture, yesterday we released our September edition of [FX Talking](#). We retain a medium-term bearish view on the dollar based on a sub-consensus call for US activity next year and a far more dovish Federal Reserve than the 90bp of easing currently priced for 2024.

Chris Turner

➔ EUR: Propped up into Thursday's ECB

As we discuss in our latest [ECB cheatsheet](#), we see Thursday's European Central Bank event risk being a temporary positive one for EUR/USD. For that reason, we suspect that EUR/USD can find some support in the short term near the 1.0700 area - even if oil prices do push higher.

Elsewhere, we have recently favoured a move lower in EUR/JPY based on positioning. Thursday's ECB could see EUR/JPY briefly trade back up to the 158.50 area, but some excitement over a possible change in Bank of Japan interest rate policy later this year suggests the 150 and 160 levels on USD/JPY and EUR/JPY prove toppish.

Chris Turner

➔ GBP: Wage data not as hawkish as it looks

The UK has just released wage and employment data. On the face of it, an as-expected 7.8% three-month/year-on-year rise in ex-bonus weekly earnings in July makes the case for the Bank of England to remain hawkish.

But here is what our UK economist, James Smith, thinks of the data.

"The UK wage numbers are actually more dovish than they look at first glance. At the headline level, regular pay growth stayed at 7.8% on a 3M/YoY basis- - no surprises there. But drill down and if you strip out the public sector, private sector pay barely increased in level terms between June and July. And if we look at the alternative wage measure based on payrolls, that actually fell in level terms for the second consecutive month. It is only one data point, admittedly, and several upside surprises preceded it. But with unemployment notching higher, the labour market data doesn't scream a need to keep hiking rates much further."

We think it right not to chase EUR/GBP too much lower on this data (it is currently reversing from a brief dip to 0.8570) and what could prove a mildly hawkish ECB on Thursday warns of EUR/GBP breaking above 0.8600 later this week.

Chris Turner

➔ KRW: The benefits of deliverability

We released an article today looking at Korean officials' plans to make the Korean won deliverable

- perhaps as early as next year. The heart of the plan is to start running a pilot in early 2024, where Registered Foreign Institutions (RFIs) can clear the Korean won with onshore banks, while the international customers of the RFIs can clear won with the RFIs. Additionally, Korea's limited onshore trading hours plan to be extended beyond the London close. The motives for these changes are Korea wanting a re-rating of its local capital markets on the back of these less restrictive FX measures.

These plans can have plenty of benefits for the market. The first, based on ING eFX data, is that USD/KRW bid-offer spreads out of Asia hours could substantially narrow on the back of the extension of the onshore trading day. Additionally, there is plenty of scope for bid/offer spread compression if USD/KRW FX product volumes edge towards those of Singapore and Hong Kong. Plus there will be benefits from hedging against an FX swap than a local NDF fixing and corporates can benefit from cash pooling and the potential for central treasuries to price internally in Korean won and manage the FX hedge at the central not local level.

Please read the article [here](#) and let us have your feedback.

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