

## FX Daily: No catalysts in sight for a dollar regression

Friday's very strong US jobs data has taken another 50bp Fed cut off the table, and we doubt inflation data will stir rate expectations again. Looking at the next three weeks, we cannot identify a clear catalyst that can reverse the course for the dollar, and a consolidation of recent USD gains looks more likely



Determining the direction for markets today will be the much-anticipated release of US payrolls data

### ➔ USD: Finally aligned with the Dot Plot

The blowout [US jobs report](#) on Friday prompted the kind of hawkish repricing in rate expectations we thought would have materialised over a few weeks. Markets no longer have pretext to look through Federal Reserve Chair Jerome Powell's pushback against 50bp cuts, and are now finally aligned with the Dot Plot projections: 25bp cuts in November and December. Crucially, there may not be any catalyst for a fresh dovish rethink until the end of October, when new jobs and activity indicators are released.

The inflation figures released this week (CPI and PPI) should not really change the picture for Fed pricing and the dollar, as some substantial surprise would be required to draw attention away from the (rather nebulous) jobs market dynamics. Our economists see September core CPI slowing back to 0.2% month-on-month after the surprising 0.3% in August. That is also the consensus view – but

while few economists are calling for another 0.3% print, no one seems to be expecting 0.1%. Again, 0.1% or 0.3% should not trigger tectonic shifts in markets now that the focus is on the Fed's employment side of the mandate, but some dollar volatility should follow any out-of-consensus print.

The FX market has suffered a hard reset as the notion of an aggressively dovish Fed has now evaporated. Coincidentally, there has been more dovish communication from other developed central banks, like the European Central Bank, the Bank of England and the Bank of Japan. We cannot see a driver for rebuilding structural USD short positions in the next couple of weeks. As mentioned above, markets appear to have given up on another 50bp cut (and inflation figures shouldn't change that), and while the Middle East situation may not spiral further, the consensus seems to be that a material de-escalation isn't likely for now, so oil prices can prove sticky on the way down. Finally, we are four weeks away from the US presidential elections and there is still a chance markets will favour defensive (USD-positive) positioning ahead of a tight contest.

All in all, barring some noise around data releases, geopolitics and US political news, the dollar seems more likely to consolidate recent gains than trend back to mid-September levels. We expect DXY around 103.0 at the end of October.

In other G10 markets, we expect a [50bp rate cut by the Reserve Bank of New Zealand](#), which we see adding pressure to NZD. Norway and Sweden release inflation figures and Canada's jobs reports on Friday should tell whether a 50bp Bank of Canada cut is still on the table (in our view, 25bp cuts are more likely).

*Francesco Pesole*

## ➔ EUR: An even wider rate gap

EUR/USD below 1.10 seemed to us to be a matter of when rather than if following the rewidening of the USD:EUR short-term rate gap. At the same time, we think 1.100 would have worked as a sturdier support had we not seen such strong US jobs numbers. Now, we could see some mild support coming the pair's way in the coming days as the Fed and ECB repricing have both run their course, but we think the risks are still skewed to the downside by the end of October as the ECB should cut, the EUR curve should favour dovish bets, and other factors (discussed above) can support the dollar.

The eurozone data calendar is quite quiet this week, so a greater focus will be on ECB speakers. Last week's comments by prominent hawkish member Isabel Schnabel seemed to suggest that the hawks are also concerned about growth and might ultimately give their go-ahead for an October cut. We'll see whether the likes of Joachim Nagel and Chief Economist Philip Lane will implicitly or explicitly endorse that. Over the weekend, dovish member Francois Villeroy said an October cut is likely.

Anyway, consensus has already mapped out the easing path ahead for the ECB and markets are now fully aligned with it, pricing in 23bp of easing for next week and another full 25bp cut in December. We struggle to see rate expectations move much before the 17 October meeting – and barring a US data tumble, the USD:EUR 2-year swap rate gap will not retighten materially from the current 125bp. That rate differential is consistent with explorations below 1.09 in EUR/USD.

*Francesco Pesole*

## ➔ GBP: Still digesting Bailey's comments

Last week's newspaper interview with Bank of England Governor Andrew Bailey – in which he opened the way to “a bit more aggressive” easing – triggered a substantial unwinding of stretched GBP net longs, which amounted to 37% of open interest on 1 October, according to CFTC data. Chief Economist Huw Pill offered sterling a lifeline on Friday as he warned against cutting too aggressively, but markets are now likely on the lookout for any slight drop in data to price in more easing in the Sonia curve. At the moment, markets factor in 22bp of cuts for November and another 17bp for December, meaning there is some more room for a dovish repricing.

However, the data calendar is not particularly busy in the UK this week and only includes monthly GDP and industrial production figures for August. The bulk of market-moving releases is next week, with jobs data on the 15th and the CPI report on the 16th.

EUR/GBP has already halved its post-Bailey gains, and we think the pair may stabilise or slip back toward 0.830 before next week's UK data. We have seen a nice directional move towards our near-term target of 1.300 in Cable. As we see a few more upside risks for the dollar and given that markets may be more inclined to price in BoE cuts after Bailey's comments, we stick to that call even if the pair might find some modest support in the coming days.

*Francesco Pesole*

## ➔ CEE: Focus shifts from central banks to inflation

After two weeks of central bank meetings in the CEE region, the focus now shifts to inflation prints. This morning, retail sales numbers were released in Hungary and Romania. Later today, we will also see industrial production numbers in the Czech Republic. The Hungarian prime minister is scheduled to address the European Parliament on Wednesday. On Thursday, September inflation in Hungary and the Czech Republic will be published.

In Hungary, our economists are expecting a further decline from 3.4% to 3.1% year-on-year, while core inflation is expected to rise from 4.6% to 4.7% – in both cases at or below the National Bank of Hungary's forecast, and this is also the market consensus. Of course, this would be good news for the central bank, but the sell-off in the HUF (as in the rest of CEE) reduces the chances of another rate cut in October to almost zero.

In the Czech Republic, we expect inflation to rise slightly from 2.2% to 2.4% YoY, but the risk seems to be skewed to the upside here. The previous print was already above the Czech National Bank's forecast and we fear we may see a more hawkish CNB in the coming months as it considers a pause in the cutting cycle in December.

Romania will also release inflation on Friday, which is expected to fall from 5.1% to 4.3%, below market expectations.

The FX market in CEE has had two days of calm, but Friday's US labour market data shuffled the cards again, pushing EUR/USD lower. This may put FX in the region under pressure again today and delay the right timing for fading losses. On one hand, there are not too many more sources of negative news for CEE currencies, while on the other (as we know) there is no limit. So we may see pressure on the CEE again today from Friday's EUR/USD move, but we will look for signs of calm for a fade move. Rate differentials remain at a record high after last week across the board and

central bank hawkishness should help erase some losses later.

*Frantisek Taborsky*

## Authors

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

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