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FX

## FX Daily: Nord Stream closure warns against EUR/USD bullishness

EUR/USD started reconnecting with its higher short-term rate differential this week, but more good news on the European gas story will be needed to close the undervaluation gap. In this sense, risks of a supply cutoff are set to rise as Nord Stream is shut for maintenance for three days. On the data side, watch ADP numbers in the US, CPI in EZ, and GDP in Canada



Gas prices and European sentiment are about to face a major stress test as the Nord Stream pipeline shuts for three days

### ↑ **USD: Eyes on new ADP methodology**

We have seen some divergence in G10 performance since the start of the week, as markets started to hold a slightly more relaxed view on the European gas supply story and the risk premium on highly affected European currencies – EUR and SEK in particular – partially shrank. However, gas prices and European sentiment are about to face a major stress test as the Nord Stream pipeline gets shut for maintenance today for three days, and there is growing concern that another reduction in supply or a complete cutoff in flows may follow at the end of the week. All this warns against getting too excited about a recovery in European currencies at this stage.

In the US, we'll get a first snapshot of the jobs market in August with the release of ADP employment figures today. The report had been temporarily discontinued after the May

release, and will now resume with an updated methodology and a wider range of data (including additional information on wages). It will be interesting to see whether the alleged higher accuracy of the new APD index will trigger a larger-than-normal market reaction. Surely, the timing couldn't be more appropriate, as Jackson Hole saw a reiteration of the data-dependency rhetoric and markets are split between a 50bp and 75bp hike in September (67bp currently in the price).

On the FedSpeak side, we'll hear from Loretta Mester and Raphael Bostic today, as well as from the freshly-appointed Dallas Fed President Lorie Logan, who will become a voting member in 2023.

We think the dollar direction today may mostly hang on ADP figures, although the underlying narrative should continue to be a moderately bullish one if nothing else because the two major alternative markets to the US one – Europe and China – remain broadly unattractive despite the partial easing in gas prices and a slump in Chinese PMIs proved not as bad as expected this morning. DXY reaching 110.00 in the coming days is still a tangible possibility.

*Francesco Pesole*

### 📉 EUR: Watch for the resilient risk premium

Following yesterday's EUR/USD rebound, the pair closed some of its short-term undervaluation gap to around 3.0% from the 5.5% peak seen early last week, according to our calculations.

What appears clear in the current EUR price action is that any reconnection with its more favourable short-term rates still needs to rely on an improvement in the European energy story. In other words, as the Nord Stream pipeline closure raises fresh risks of a complete supply cutoff, that process of realignment of EUR/USD with its 2-year swap rate differential (which is at the highest since March) may well halt, or be easily reverted.

In this sense, the main highlight of the day in the eurozone – the aggregate CPI numbers for August – may not provide too much of a shock to EUR/USD. After all, the market's pricing is quite firmly falling on the hawkish side of the spectrum when it comes to the ECB tightening cycle: 70bp priced in for September, 160bp by year-end. The market consensus is for a marginal acceleration in both headline and core acceleration today after Germany's slightly above-expectations figures yesterday.

Our view for the remainder of the week is that EUR/USD may struggle to break above 1.0100 and faces downside risks (i.e. a return below 1.0000) as the end of the Nord Stream planned closure over the weekend inches closer.

*Francesco Pesole*

### 📈 CAD: Growth numbers should endorse 75bp hike by BoC

Commodity currencies have been hit particularly hard since the start of the week as oil prices remained pressured. In this segment, CAD and NOK weakness looks unlikely to last long in our view, as both currencies still have to fully benefit from the economic benefits of their positive terms of trade shock, which ultimately underpins sustained tightening by their local central banks.

Today, Canada sees the release of 2Q GDP numbers, which should be quite encouraging: consensus is for +4.4% annualised quarterly growth. This may convince markets to fully price in a 75bp rate hike by the Bank of Canada next week (69bp currently in the price), a notion that should fuel a CAD recovery and send USD/CAD sustainably below 1.3000 despite some resilience in USD bullish momentum.

*Francesco Pesole*

### 📉 CEE: Another reason for dovish NBP and weaker zloty

Yesterday's National Bank of Hungary [decision](#) to hike rates by 100bps to 11.75% provided fresh impetus for the forint to move to the strongest levels since mid-August. The main reason for a stronger forint, however, is a set of liquidity measures the central bank wants to use to try to halve the liquidity surplus. The goal is quite ambitious, but this new set of measures shows a strong commitment by the National Bank of Hungary to tackle inflation. Of course, we need to see the details of these measures in order to assess the long-term effect on the forint. In the short term, however, it is clear that the forint will benefit from yesterday's decision in the coming days. On the other hand, market optimism may quickly fade, and the forint will return to weaker values. Overall, the cards are once again in the hands of the NBH. However, we believe that the market's attention will once again return to the topic of EU money and negotiations with the European Commission in the second half of September, which is still the main driver of the forint.

Today, market attention will turn to Poland, where GDP and inflation data will be published. The first estimate of 2Q GDP came with a significant negative surprise and today's print should explain the reasons for the weak economy. August inflation is likely to show a slowdown in the annual inflation rate from 15.6% to 15.4%, which may give a false impression that inflation is starting to slow. However, we see this as just a summer pause before further growth. Nevertheless, both of today's numbers make the case for the NBP's dovish rhetoric that is holding back the hiking cycle. But it is negative news for the Polish zloty given still high market expectations. Therefore, we expect the zloty to weaken and return to the range of 4.760-4.780 EUR/PLN.

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