# FX Daily: PCE data to confirm inflation is under control

We expect US core PCE at a consensus 0.2% MoM today, which should endorse the Fed's shift in focus from inflation to unemployment/growth. The market impact should be limited and the next move in the dollar may well have to wait for jobs figures next week. Meanwhile, some eurozone inflation numbers will start to test the recent ECB dovish repricing

## USD: Core PCE should not rock the market

US initial jobless claims came in once again lower than expected (218k versus 223k) yesterday, but continuing claims – which track the speed to re-enter the jobs market – rebounded to 1.834m. Durable goods orders were stronger than expected and the expected revision lower in 2Q GDP from 3.0% to 2.9% didn't materialise.

Market pricing for year-end Fed rates inched higher by a few basis points over the past couple of sessions, but the dollar was offered again yesterday after some positioning adjustment on Wednesday. Anyway, markets continue to factor in a 50bp cut at one of the next two meetings.

Today, August PCE data will be released. We expect a core 0.2% month-on-month print, in line with consensus, and limited market impact. Even in the case of a small deviation from consensus, the recent shift in the Fed's focus to the employment side of its mandate means markets are less sensitive to inflation news.

We think DXY can stay around in the 100.0-101.0 range for a few days. The next big move may only happen with a jobs data surprise next week.

*Francesco Pesole*

## EUR: ECB repricing faces inflation test

The first few September CPI prints across the eurozone will be published today. Both French and Spanish inflation is expected to have slowed (to 1.6% and 1.9%, respectively), although Spain's core measure is seen rising from 2.7% to 2.8%.

German numbers are published on Monday and the eurozone-wide figures on Tuesday. Inflation has the potential to trigger some hawkish repricing in European Central Bank rate expectations given that Governing Council members recently showed reluctance to give in to easing pressure despite a gloomy economic picture.

EUR/USD found some support yesterday, and another break above 1.12 is surely possible into next week's US payrolls data.

*Francesco Pesole*

## GBP: Strength continues

It's been a quiet week in the UK calendar, but the weak economic indicators out of the eurozone have dealt a blow to EUR/GBP. We saw the pair test the 0.8320 level earlier this week, and while we continue to see a good case for a rebound beyond the short term as Bank of England easing may be underpriced, we probably need some inflation surprise in the eurozone to prevent 0.8300 to be tested soon.

The EUR:GBP swap rate differential collapsed as markets increased bets the eurozone's grim outlook will force the ECB into larger cuts than the BoE, and is now at -155bp, the widest since December 2023. That should keep some pressure on the pair in the near term.

In cable, the fresh 1.34+ highs are also justified by the policy rate differential, although expectations for a 50bp Fed cut may be misplaced, and GBP/USD may start to look expensive soon.

*Francesco Pesole*

## CEE: Different country, different implications of rate cuts for FX

Friday's calendar in the region indicates a rather quiet end to the week with a focus on US numbers. Only after the close of trading today will we get a sovereign rating review of Romania from Moody's. Still, CEE currencies have come under pressure over the past two days and we may see some attractive levels across the board. EUR/HUF quickly moved up to 396, which was the level we mentioned in the National Bank of Hungary review following Tuesday's central bank decision to cut rates by 25bp. For now, we see no reason to move to the 400 level, but given the repricing in the rates market in a dovish direction, we remain bearish on the forint and potentially expect more weakness.

On the other hand, EUR/PLN has been moving higher for the last two days, touching 4.280 this morning, with no visible reason to us, and the zloty is showing attractive levels for new buyers, especially ahead of the inflation print and National Bank of Poland meeting next week. On the other hand, EUR/CZK remains steady after the Czech National Bank meeting this week and the end of yesterday's trading suggests a move lower, which we discussed here earlier this week. Despite the dovish market pricing, we believe that even the current rate levels would imply a stronger koruna while a possible repricing may add additional impetus to the CZK. We therefore remain bullish on CZK, however, today's direction will be mainly driven by US data across the region.

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