

## FX Daily: Pieces falling into place for a September Fed rate cut

Now that US inflation is back on target, the main question is whether the Fed starts its easing cycle with a 25bp or 50bp rate cut. Today's US data will not have a major say in that, but any downside surprise in July retail sales or upside surprise in weekly initial claims can soften the dollar. Elsewhere, today's Norges Bank meeting could send EUR/NOK lower



### 📌 USD: Exploring the softer side

As James Knightley writes in his review of [yesterday's July CPI release](#), the softer trend in inflation will be music to the ears of the Federal Reserve. Core inflation is running at a 1.6% three-month annualised rate – under the Fed's 2% target. Most of the components of this week's PPI and CPI releases point to an on-target 0.2% month-on-month release of the July core PCE inflation data on 30 August. We should now be expecting some dovish commentary coming through from the Fed and would look out for key speeches from someone like Christopher Waller. And of course, next week's Fed's Jackson Hole Economic Symposium presents the opportunity for Chair Jerome Powell

to very much welcome recent inflation trends.

Now that inflation is under control, attention squarely shifts to the speed of Fed rate cuts. One example here was a [very dovish cut by the Reserve Bank of New Zealand](#) yesterday, where the central bank sounded in a hurry to get the 5.50% policy rate down to the neutral 3.00% rate. It only cut by 25bp yesterday but had discussed a 50bp cut. True, New Zealand's economy (small, open) is very different from the US (large, closed), but the RBNZ does show an example that central banks can shift narratives pretty quickly.

Activity data will now determine whether the Fed cuts by 25bp or 50bp in September. The August jobs data on 6 September will have a major say here. In advance of that, today sees retail sales for July. The bounce back in auto sales is expected to support the headline number, but the market will focus on the retail sales control group. This is expected to rise 0.1% MoM after stellar 0.9% gains in June. The consensus is 0.1% MoM and any MoM decline here (-0.1%, -0.2% are possible) could weigh on the short end of the US rates curve and the dollar. The market will also be paying close attention to the weekly initial claims to see whether any of the recent layoff announcements are finally lifting the claimant count.

With cross-market volatility falling and the Fed about to embark on an easing cycle, the dollar is behaving itself and turning gently lower. Our bias would be for DXY to retest the 102.16 low from early this month, below which the move could pick up a little momentum.

*Chris Turner*

## 📈 EUR: Some rare positive sentiment on EUR/USD

The [eurozone economy](#) does not have a lot to shout about at the moment. And a rebound in the [Chinese economy remains elusive](#). Yet the prospect of the US economy and interest rates converging on the lower levels in the rest of the world is proving supportive for EUR/USD. This can be seen in the FX options market, where in the one-month tenor, the price of a euro call option over a euro put option has turned positive for the first time since February 2022. In our recent FX talking publication, we felt [EUR/USD had the legs to move to 1.12](#). We would like to keep this bias for the time being even though the prospect of European fiscal consolidation and potentially wider sovereign spreads may reappear in September.

We see EUR/USD support at 1.0985/1000 and any softer US activity data could drag it up towards 1.11. While it is tempting to say that EUR/USD will remain in a 1.05-1.11 range for evermore, we would caution that realised EUR/USD volatility has been exceptionally low over the last couple of years and that range breakouts should be respected.

*Chris Turner*

## 📈 NOK: Norges Bank can resist dovish temptation for now

Norway's central bank announces monetary policy at 10:00am CET, and we expect a hold in line with consensus and market pricing. Since no new economic projections are published, the focus will be on whether policymakers will tweak their policy statement on the back of the global dovish repricing in rate expectations.

As discussed in our [preview](#), NOK is around 3% weaker on a trade-weighted basis compared to the Norges Bank projections for this quarter, and Governor Ida Wolden Bache stressed at the last

policy meeting that “if the krone depreciates, wage and price inflation could remain elevated for longer. In that case, there may be a need to raise the policy rate”. It is true that inflation slowed more than expected in Norway in the past couple of months, but Norges Bank does not have the same growth and jobs market concerns of the Fed and the Riksbank (you can find our preview for the next policy meeting in Sweden [here](#)).

Accordingly, we think Norges Bank will retain a hawkish stance at this meeting, stressing the risks of a weak krone. That should keep rate cut expectations for year-end capped at the current 20-25bp for now, and can smooth the path for further recovery in NOK. We target a return to 11.50 in EUR/NOK in the coming weeks thanks to NOK's high beta to the Fed rate-cutting cycle and improvement in risk sentiment.

*Francesco Pesole*

## AUD: Employment data should keep AUD bid on crosses

As [Rob Carnell writes overnight](#), the strong Australian July employment data may prove something of a headache for the Reserve Bank of Australia. Strong gains in full-time employment look likely to delay the RBA from tumbling into full easing mood as already seen in New Zealand and will probably be seen by the Fed in September.

This should imply that the Australian dollar does well on the crosses. The early August tumble in AUD/NZD suggests that investors had liked this cross to trade higher, but yen-triggered deleveraging forced the unwind. We can now see this cross retesting the 1.1150 highs from mid-July. Equally, if the Fed is to cut in September and the US yield curve to steepen further, EUR/AUD should come lower. But it may well be that macro weakness in China is holding the AUD back here. Overall, Francesco Pesole has a one-month target at [0.68 for AUD/USD](#).

*Chris Turner*

### Author

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### 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)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).