

FX Daily: Quiet data, loud Fed help dollar rebound

The data calendar remains quiet across developed markets, but we are hearing more from central bankers. Fed speakers have delivered hawkish comments, emphasising the fight against inflation and keeping options open for December. Expect more pushback against dovish bets as Powell takes the stage today and tomorrow: the USD recovery may have more to run



Jerome Powell, Chair of the Federal Reserve

USD: Fed hawks step in

The dollar rebound has started to gain some momentum. What has likely offered a hand to the greenback was the generally hawkish comments by Fed members yesterday, with both a hawk - Neel Kashkari - and a dove - Austan Goolsbee - emphasising the inflation battle and leaving all options open for the December meeting. Two more hawkish members, Michelle Bowman and Lorie Logan, echoed the message. The 2-year USD OIS has now recovered some ground, trading around 4.75% this morning, although 10-year Treasuries continued to be in demand yesterday and are hovering around 4.60% now. Anyway, the sensitivity of the dollar to US yields continues to decline when rate volatility is contained.

Fedspeak will remain the central theme today, and probably for the rest of the week given a quiet US data calendar. Fed Chair Jerome Powell will deliver some opening remarks at an event today, although his panel discussion at the IMF conference tomorrow is where we could hear more on monetary policy. Today, Lisa Cook, John Williams, Michael Barr and Philip Jefferson are all due to speak on various economic themes. It is a group of speakers largely sitting in the neutral area of the dove-hawk spectrum, so it will be more interesting to hear their views on financial conditions, especially after the recent drop in yields.

We are inclined to think a pushback against the dovish interpretation of the latest Fed meeting will continue, and despite some resistance against re-entering paying position in long-term rates, the FX markets seem to be responding more swiftly to this narrative. We could see the greenback find a bit more support in the remainder of the week. A return to 106.00 in DXY looks on the cards over the coming days, although a move to 106.50 would probably require the 2-year USD swap rate moving back to 5.0%, which might only happen after some reassuring US data comes through.

Francesco Pesole

📌 EUR: Many ECB speakers to watch

We are not surprised to see EUR/USD back below 1.0700. The short-term swap differential was pointing at a correction in the pair even before the rebound in the 2-year USD OIS – [as we discussed on Monday](#).

With Fed officials pushing back against the recent dovish re-pricing, we think there is a bit more room for this EUR/USD correction to go. In the eurozone, the European Central Bank consumer inflation expectations for September will be watched today. The 3-year median value will be particularly interesting since it ticked higher in July and August, to 2.5% after a fall from the 3.0% 2022 peaks.

On the monetary policy side, many ECB members are lined up to speak today: doves Philip Lane and Pablo Hernandez De Cos, hawks Pierre Wunsch, Joachim Nagel and Martins Kazaks, as well as the more moderate Gabriel Makhoul, Boris Vujcic. Markets have added about 20bp of easing into the EUR OIS curve by mid-2024 over the past couple of weeks, and this is probably what the narrative by ECB speakers (especially the hawks) will focus on; pushing back against rate cuts. However, unlike the Fed, the dovish ECB repricing is based on more solid evidence of an economic slowdown, meaning it should be harder for ECB members to convince markets to price out cuts. EUR/USD may continue its gradual return towards 1.0600/1.0650 in the coming days.

Francesco Pesole

📌 GBP: More room for dovish repricing

Gilt rallied across the curve yesterday and EUR/GBP jumped above 0.8700 yesterday following a round of dovish comments by Bank of England Chief Economist Huw Pill yesterday. Pill said that there would be a “sharp further fall” in inflation in October and crucially hinted that rates could be cut in the middle of next year. That is somehow contradicting the previous efforts to push a narrative of higher for longer by BoE officials.

Still, markets are pricing in 30bp of easing in the UK by August 2024, which looks rather modest compared to the 50bp+ priced in for the US and the eurozone. We suspect there is room for further

dovish repricing down the road in BoE expectations.

Today, all eyes will be on a speech by BoE Governor Andrew Bailey. It is not clear whether he will discuss monetary policy, but if he does, he may be inclined to soften the stance on rate cuts that was suggested by Huw Pill yesterday.

Francesco Pesole

CEE: Rate cut in Poland, no change in Romania

Today we have a busy schedule in the CEE region. In the morning we will see retail numbers from Romania and Hungary. Later today we will see the outcome of the central bank meetings in Poland and Romania. For the National Bank of Poland, [we expect](#) a 25bp rate cut today, which is in line with market and survey expectations, but we see a risk that rates could remain unchanged. Moreover, forward guidance for the next meeting will be key. However, as always, the press conference is scheduled for tomorrow. The central bank will also have a new forecast. The National Bank of Romania [is expected](#) to leave rates unchanged and this time it should be more of a non-event. We think the NBR will wait until April next year for the first rate cut. But, at least, here too we will have a new central bank forecast.

The zloty has been rather stable for the last few weeks around EUR/PLN 4.450. We remain positive on PLN and believe today's meeting should be a trigger for rates to reassess the dovish view. This should push EUR/PLN lower and testing 4.420 should not be a difficult task. However, the key will be the governor's communication tomorrow. In contrast, EUR/RON seems safely anchored in a narrow 4.960-4.975 band. Excess liquidity in the system remains near record highs so we do not expect any change to the current situation. The push towards a weaker RON is likely to be a chance for the central bank to keep the liquidity surplus at least at current levels, and until inflation is fully under control we cannot expect much movement here.

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