

Article | 1 August 2023

FX

FX Daily: RBA's pause isn't the endgame

The Reserve Bank of Australia held rates for a second consecutive month, but we still think there is a chance the bank will hike one last time in September on the back of an inflation surprise. In the US, surveys will test the soft-landing story, but the dollar may stay trapped amid low FX volatility for now



➔ USD: Still fighting for direction

We have recently made the case for the dollar to stay “trapped” in a situation where FX volatility fails to pick up, leaving room for carry trades to keep supporting high-yielders and weigh on funding currencies. The greenback probably needs some compelling evidence against the soft-landing narrative in the coming days to break lower.

Today will be the first occasion to put that narrative to the test this week. The US manufacturing sector has been in contractionary territory since November 2022, and the consensus expectations for a mild rebound from 46 to 47 this month may not have major market implications. We think JOLTS job openings data have a greater potential to move investors' sentiment today, with the consensus already positioned for a cool-off in the hiring market. On the FedSpeak side, we'll hear from Chicago Fed President Austan Goolsbee.

One data release that went slightly under the radar yesterday, but in our view contained key forward-looking information, was the Federal Reserve's Senior Loan Officer Opinion Survey. [As](#)

[discussed by our US economist here](#), the survey pointed at a further tightening in US lending conditions and how both households and businesses are now warier about taking on additional borrowing. Given the centrality of credit flow to the US economy, this increases the probability of a faster return to target inflation.

Outside of the US, China continued to print disappointing data: the latest being July's Caixin PMI manufacturing, which fell more than expected into contraction territory (49.2). This has set the stage for a risk-off-leaning environment in FX this morning, which can favour some modest dollar recovery into the US data releases and help DXY consolidate above 102.00, before facing harder data-related tests (ISM services and jobs report later this week).

Francesco Pesole

➔ **EUR: Markets too dovish?**

Yesterday's set of data releases in the eurozone showed the growth and inflation side moving in diverging directions. The euro area [grew slightly more than expected](#), at 0.6% year-on-year (0.3% quarter-on-quarter) in the second quarter, while inflation slowed in line with consensus from 5.5% to 5.3% in July. Core inflation was, however, unchanged at 5.5%.

The most interesting dynamic in inflation, and one that the ECB will likely follow closely, is related to service price pressure. While goods inflation continues to ease, service price pressure has kept mounting in line with wage growth and stronger demand.

In our view, yesterday's figures leave the door open for another hike by the ECB before the end of the year, even in September. Markets, however, remain reluctant to endorse this scenario and only price in 17bp of tightening by December, likely having read last week's ECB messaging as a dovish tilt. It is possible investors will want to hear more hawkishness from ECB members before aligning with the data's indications and fully price in another hike. However, August is a quiet month for ECB speakers: we'll hear from the dove Fabio Panetta later this week, and that will hardly help.

EUR/USD should be primarily driven by the dollar leg and US data for the remainder of the week, and there are some downside risks to the 1.0900 handle.

Francesco Pesole

⬇️ **AUD: RBA can still hike in September**

As we expected, the Reserve Bank of Australia (RBA) kept rates on hold today, defying consensus expectations. The Bank pointed out how higher interest rates are "working to establish a more sustainable balance between supply and demand in the economy" and opted for a pause to better assess incoming data.

The new CPI forecasts now see inflation declining to 3.25% by the fourth quarter of next year and fall back into target by the end of 2025. This is probably a dovish signal, as it implies the current pace of tightening is appropriate to take inflation back to target in an acceptable timeframe. However, the RBA has shown elevated sensitivity to data, and we doubt this will change very soon: another high inflation read may well convince it to add a hike before the peak. Our base case is still for one last 25bp increase to be delivered in September when electricity tariffs could deliver an inflation surprise.

AUD may underperform other peers like the NZD and the Scandies until a bullish “pocket” emerges in September, should the RBA go ahead with one last hike.

Francesco Pesole

➔ CEE: PMI numbers to deteriorate

PMI numbers across the region will be released today. We expect a deterioration in sentiment in Poland and the Czech Republic as the eurozone and German numbers indicated earlier. On the other hand, we expect some improvement in Hungary. Later today we will also see the state budget result in the Czech Republic. Given that these numbers disappointed almost everywhere across the region in the first half of the year, they now have more attention and a clear impact on potential additional bond issuance over the rest of the year. However, in the Czech Republic, June showed the first improvement and although July may show a renewed deterioration, the second half should point to an improvement overall.

We saw a wild opening in the FX market yesterday. The Polish zloty pushed its record highs with EUR/PLN touching 4.400. The Czech koruna rushed for gains ahead of Thursday's Czech National Bank (CNB) meeting and almost erased all losses from the past two weeks. This may be due to market expectations of a more hawkish CNB this week or the end-month rebalancing of Czech government bonds within the index, which this month was several times larger than usual. In the first case, we can expect even lower EUR/CZK in the days ahead. On the other hand, if the bond rebalancing was the driver, the koruna should stabilise today.

Our main focus yesterday, however, was probably the Hungarian forint, which weakened again to its lowest level since early July and briefly touched 388 EUR/HUF. We still don't see many reasons on the local side to explain the current HUF weakness. That's why we instead analyse global factors and especially EUR/USD as we mentioned yesterday. That said, while we should be seeing an end to the HUF weakness, we also cannot expect a big reversal unless we see a significant recovery in EUR. These EUR/HUF levels also open the question of where the pain threshold is for the Hungarian central bank, which will not like the current situation. However, for any verbal action, we would probably need to see more weakening above the 390 EUR/HUF level in our view.

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