FX Daily: Revision risk

The market seems to be in the mood to sell dollars. Fuel for that dollar selling today could be some benchmark revisions to US job numbers. These could show a US jobs market far less strong than was initially thought. Combined with the release of the FOMC minutes from the 31 July meeting, the case should build for lower Fed rates and a weaker dollar

USD: Dollar continues to drift lower

Tuesday saw another day of dollar selling. Short-dated US rates came off – perhaps as speculation grew over today's release of benchmark revisions to US jobs data. Here, the Bureau of Labour Statistics will today release revisions, using more accurate tax records, for employment growth in the year to March 2024. Some estimate that it could result in job gains during that period being cut by anywhere between 500,000 and 1,000,000. If so, the Federal Reserve might have seen the jobs market as overly tight during that period and perhaps might now be underestimating the amount of slack that is about to emerge as the economy cools. This data is released at 1600CET and presents a downside risk to the dollar.

Later in the day, the Fed releases the minutes of the FOMC meeting on 31 July. Recall this was the meeting when the Fed shifted its focus to its dual mandate. Perhaps we can expect to hear a discussion in the minutes of how the Fed was increasingly comfortable on the inflation side and a little uncomfortable on the employment side.

The DXY sell-off is starting to pick up a little momentum as traders look to jump on possibly an important new market trend. Let's see how it performs around the 101.00 level.

Chris Turner

EUR: Balance of payments picture is supportive

We mentioned yesterday that we could see some supportive current account data for the eurozone. In fact, June's current account surplus was a monthly record at over EUR50bn! Eurozone balance of payments data has swung very much in favour of the euro over the last two years and the basic balance (current account plus foreign direct investment plus portfolio investment) now looks the highest on record. The European Central Bank's trade-weighted euro is now the highest on record too. Apologies for the obvious comment, but were it not for the mighty dollar, EUR/USD would now be a lot higher.

EUR/USD is now running into some serious medium-term resistance in the 1.1110/1140 area. Maybe this proves the top of the range before elections in November. All we are saying is that if resistance breaks, very low realised volatility levels warn that EUR/USD could move sharply higher. And we are reluctant to fight this EUR/USD bull trend ahead of a slowing US economy and the first Fed cut in September.

Chris Turner

Latam FX: Struggles to catch a break

One might have thought that in a world of lower US interest rates and a broadly weaker dollar, the Latin currencies could have started to do a little better. But no, both USD/MXN and USD/BRL bucked the dollar trend yesterday and rallied.

We had mentioned previously that we thought USD/MXN would struggle to trade under 18.50 because of constitutional reforms being discussed in September. However, it also seems that the peso is still very much driven by USD/JPY trends. Instead of seeing the weaker dollar, USD/MXN sees the stronger yen – i.e. carry trade dynamics still dominate. Given we're bearish USD/JPY into September, this suggests more pain for the peso.

For the Brazilian real, comments from the central bank that it might not deliver on the market's pricing of rate hikes was a key driver yesterday. Additionally, we are still waiting on the government's 2025 budget plans. These are due on 31 August. Doubts remain as to whether the government is prepared to cut spending enough to stabilise the debt trajectory. And we would stay bearish on the real unless the government surprises with some fiscal consolidation.

Chris Turner

PLN: Governor's interview ends zloty rally

The quiet day in the region yesterday was disrupted at the end of the day by headlines from an interview with the Governor of the National Bank of Poland (NBP) after the non-monetary decision meeting. The NBP is on summer break in August and the next monetary meeting is not until the end of September. However, Governor Adam Glapiński seems to have taken the opportunity to express his views after some of his colleagues downplayed his recent comments about rate cuts as late as 2026. In yesterday's interview, the governor acknowledges the possibility of the economy and inflation surprising to the downside next year, but it seems his base case scenario is still more of a rate cut in 2026 given the upside risks to inflation in his view. However, the news agencies, in our view, have picked rather dovish headlines which has triggered a decent sell-off in the zloty and a rally in the rates market. Market pricing has essentially rolled back the first rate cut to November this year and 4.00% for the end of next year from the current 5.75%. While we can see some dovish shift from the July NBP press conference, it is still significantly on the hawkish side compared to market pricing, and the governor's rhetoric has shifted somewhere between June and July levels of hawkishness.

At the market level, and with summer liquidity not helping we assume that market positioning was mainly on the paid side before the interview. This morning we will see some monthly data from the Polish economy which we think can move the market significantly in either direction in these conditions. We will see wage data, industrial production and Producer Price Index (PPI) data and the Polish government bond auction later today. For wages, our economists are more on the dovish side versus market expectations but industrials on the other hand could be stronger while for PPI we are in line with the consensus at the moment. Signals are thus more mixed in the economy and summer liquidity may result in high volatility after the governor's interview. However, dovish data could hit stop-losses on recently built paid positions in the market and further move market pricing in the direction of earlier rate cuts.

Our economists still see the first rate cut in the second quarter of 2025, which seems like the best decision given the inflation profile for the coming months. There is a chance we could see a rate cut in the first quarter of 2025 if the numbers surprise on the downside. Therefore, we believe that lower market rate levels would again be followed by new pay flow later. While the rates picture is mixed in the short term, we see FX more clearly. PLN reacted by weakening yesterday and we expect to see more today. In our view, this concludes the PLN's rally over the last 10 days and our bias turns bearish with EUR/PLN 4.290 as the first stop indicated by yesterday's fall in the rate differential.

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