

FX Daily: Scope for a euro bounce today

The main focus of today's session is the ECB meeting. We think the central bank can pour a little cold water on the chances of a further rate cut in October (after today's cut) and that EUR/USD can move higher. Elsewhere, we have second-tier US data and could be on the lookout for any China support measures



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⬇️ USD: More settled equities can see the dollar soften a little

Yesterday's slightly higher-than-expected core US CPI for August saw 7bp priced out of the expected 2024 Fed easing cycle. Yet 100bp is still priced in. We doubt those expectations change meaningfully today. In focus will be the August PPI readings and the weekly initial claims data. This year, PPI readings have taken on greater focus as the market analyses key components such as portfolio management fees, healthcare costs and airfares which read through to the Fed's preferred measure of inflation, the core PCE deflator. However, now that the Fed has declared "the time has come" to start cutting rates, financial markets will be far less worried by the inflation data prints and have shifted their focus squarely on activity data – particularly jobs data. Here the holiday-shortened week probably means that initial claims data today will remain low near 225,000. In short, not a lot new from the US calendar.

The reason we have a down arrow on the dollar today is that the risk environment looks slightly better bid today and we are looking for a slightly stronger euro – which has a large weight in the

DXY. Overnight, tech stocks (particularly Nvidia) saw the S&P 500 end up 1% and have sparked some decent rallies across Asia. There is also a small risk that Chinese leaders announce some fiscal support measures – potentially targeted at consumers – at this week's National People's Congress. A budget tweak was made at the same meeting this time last year. Any moves to address weak Chinese demand would be most welcome and break the stagnation fears stalking markets (especially energy markets) this week.

If we are right with our EUR/USD call below, 101.90/102.00 resistance should hold in DXY and we can end the day closer to 101.00.

Chris Turner

📈 EUR: Too much ECB easing priced for 2024

The ECB announces its rates decision today at 1415CET. The deposit rate is widely expected to be cut by 25bp to 3.50%, while in a technical adjustment, the Main Refinancing Rate will be cut by 60bp. Please read more about that technical adjustment in our [ECB cheat sheet](#). Our core view today is that the ECB will not offer the market enough information (be it forward guidance or new economic forecasts) to justify the roughly 11bp of easing priced in for the 17 October meeting. Our house view remains 25bp rate cuts today and 12 December. If we're right, EUR/USD should be able to enjoy a modest bounce towards the 1.1080 area.

Elsewhere, we have a speech from outgoing Swiss National Bank President Thomas Jordan at 1625CET today. He's speaking at a Swiss Bankers Association event. It is not clear he will stray near monetary policy in his speech, but we are very surprised to see the market pricing 32bp of rate cuts for the 26 September meeting. We very much doubt it would be cut by more than 25bp since with an already very low policy rate (1.25%) it has far less room to cut. In addition, the economy has been performing quite well. EUR/CHF could rally today if the short end of the euro curve backs up on the ECB today. But we imagine it would meet sellers against in the 0.9450 area.

Chris Turner

Denmark's National Bank will most likely follow suit with a 25bp cut of its own today. The announcement will be at 17.00 CET. EUR/DKK's appreciation first, and then stabilisation around the 7.46 central peg level has allowed the central bank to not intervene in the FX market for 18 consecutive months, and there are no incentives to alter the current 40bp policy rate gap with the ECB for now. Our view on EUR/DKK is flat at 7.46 in the short and medium term.

Francesco Pesole

📉 GBP: Some movement in UK swap rates

UK rates softened quite a lot yesterday and for the month so far, two-year sterling swap rates are off around 30bp. It is unclear whether this is a function of the soft UK GDP data yesterday or more just a conviction that rates will be taken lower around the world and that the UK should be no exception – despite radio silence from the Bank of England. If we are right with our call for a back-up in euro rates today, EUR/GBP could correct to the 0.8485/8500 area.

Chris Turner

➔ SEK: Swedish inflation surprises on the downside

Data released this morning show Swedish CPIF inflation declined to 1.2% versus a consensus of 1.4% in August, and core CPIF (excluding energy) was on consensus at 2.2%. Like the Fed, the Riksbank is no longer looking too closely at small deviations in the inflation figures, and bumps in some generally volatile series will probably be overlooked in the path to lower rates.

Markets are currently pricing in 85bp of easing by year-end, which translates into one 25bp cut at each meeting (September, November, December) plus some speculation that one of those will be a 50bp move.

Recently, Riksbank Governor Eric Thedeen explicitly said three cuts look more likely than two by year-end, but there hasn't been much discussion about half-point moves. Given the Riksbank started cutting rates in May and the central bank wants to avoid adding pressure to SEK, we think policymakers will keep moving in 25bp steps.

EUR/SEK has been supported in September, as the krona depreciated in line with other pro-cyclical currencies. Despite the Riksbank dovish cuts, SEK is showing much more resilience than its closest peer NOK, which remains vulnerable to speculative selling due to thinner liquidity conditions. In the near term, EUR/SEK could move back above 11.50, but should struggle to rally much further unless the Fed surprises on the hawkish side or, later, Trump wins the US elections.

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