FX Daily: Settling into a stronger dollar

With large parts of Asia on holiday, it has been a quiet start to the week in FX markets. Looking ahead, the calendar offers plenty of central bank speakers, rate meetings in Australia, New Zealand, Poland and Romania, and an economic calendar culminating in US jobs data on Friday. None of these events look likely to knock the strong dollar off its perch

USD: Shut down averted – for a few weeks anyway

China's Golden Week holiday is going to keep FX market activity subdued during Asian hours and we have seen little reaction to the weekend release of the latest Chinese PMI numbers. Instead, the focus has been on the US Congress agreeing on a stopgap spending bill to fund the government until November 17th, avoiding a shutdown.

The week ahead sees more manufacturing PMIs around the world – including the US ISM today – and the US data highlight will be Friday's release of the September jobs report. Consensus expects another steady 170-180k headline increase in jobs and the unemployment edging back to 3.7%. Average hourly earnings are expected to tick up to 0.3% month-on-month. On the face of it, these numbers will not reverse the Federal Reserve's hawkish stance, nor the strong dollar.

In fact, Friday's release of August income and spending data – including huge back-month revisions – point to the US consumer being in even ruder health than believed. The data warns that strong US consumption can extend into the fourth quarter, and whilst the soft core PCE deflator makes the case that the Fed does not need to hike further, the case for any early rate cuts has also become more distant.

Given that long-dated US yields have been a big driver of the dollar over recent weeks, perhaps a more settled week for the bond market means that the dollar can just consolidate at the highs. We note next week sees US three, ten and thirty-year US Treasury auctions and could be the next big driver for yields – assuming no major surprises from Friday's US jobs report,

Beyond the ISM release, today's calendar also sees Fed Chair Jay Powell participate in a roundtable discussion at 5:00 pm CET today. DXY should probably stay bid in the 106-107 range this week.

Chris Turner

EUR: Quarter-end bounce fades

Last week's late bounce in EUR/USD looks to have petered out above 1.06 and further points to quarter-end flows briefly weighing on the dollar. The aforementioned revisions to US consumption and savings data make the case for EUR/USD to stay lower for a little longer, meaning that the 1.0490/1.0500 area could easily be retested this week.

Expect the calendar to confirm another set of soft PMIs for Europe in September and focus to switch to whether the European Central Bank (ECB) needs to deliver one final rate hike after all. There are plenty of ECB speakers this week, and the highlight will probably be President Christine Lagarde speaking at a monetary policy conference on Wednesday. For reference, money markets have virtually priced out any further ECB tightening in this cycle – just 3-4bp of tightening priced around the turn of the year.

Elsewhere, we mentioned last week that Italian fiscal concerns could start to have an impact on the euro. Let's see whether the weekend announcement by the Italian government that it plans to sell EUR21 billion of assets 2024-26 has any impact on the pressured government bond market.

Chris Turner

GBP: All quiet on the BoE front

EUR/GBP is settling into a 0.8600-0.8700 range and that may be the story for the majority of October. Here, there are only a few inputs ahead of the next Bank of England (BoE) meeting on November 2nd, where we look for unchanged rates at 5.25%. One such input is Thursday's release of the BoE Decision Maker Panel survey, which we think will show a further easing in price pressures. This could prove mildly sterling negative in that the market is still pricing 18bp of further BoE tightening over the coming months.

Chris Turner

CEE: Rates again the main driver for FX in the region

It will be quite a busy week ahead in the region. Today, we will see the September PMIs which should again confirm the mixed and complicated industry picture in the CEE countries. Later today, the Czech Republic's state budget result will be released, which is the only one in the region to surprise on the positive side in recent months. On Wednesday, we will have retail sales data in Hungary and Romania.

However, the main event will be the meeting of the National Bank of Poland, which will decide on interest rates for the first time since the surprise 75bp rate cut in early September. We expect another rate cut, but only by 25bp this time mainly due to the risk of further depreciation of the Polish zloty. Thursday's meeting of the National Bank of Romania will follow, but here we will have to wait until early next year for the first rate cut. On Friday, we will see industrial production data in Hungary and retail sales in the Czech Republic, and the Czech National Bank will publish the minutes from its last meeting.

In the FX market, the picture is basically unchanged after last week. On a global level, the strong US dollar remains the main concern for CEE, which may bring even more pain to EM currencies if core rates continue to rise this week. Market rates and interest rate differentials have emerged as the main driver in recent weeks and so core markets will be the main focus. In Poland, of course, the central bank's actions and communication this week will be crucial, but given the dovish market expectations and short positioning, a smaller rate cut could add some support to the Polish zloty. However, uncertainty over the future of monetary policy and the upcoming general election are unlikely to allow for a bigger rally, so higher volatility around current levels is more likely to be expected.

In Hungary, the market's repricing of expectations for rate cuts in the rest of the year continues, which has been positive for the rise in the interest rate differential and the stabilisation of the forint. In addition, higher rates indicate that we could see a continuation of the current trend below 388 EUR/HUF.

Frantisek Taborsky

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com