

FX Daily: Swiss National Bank seems more comfortable with CHF strength

In quiet markets, the dollar is a little softer than we had expected. The highlight today will be the preliminary annual revision to US jobs data, where the annual number up to March could be revised 700k lower. Elsewhere, we noted an interview by Swiss National Bank Governor Martin Schlegel expressing tolerance of Swiss franc strength



Swiss National Bank
Chairman Martin
Schlegel

➔ USD: Focus on payroll revisions

The most recent leg of the dollar bear trend has been triggered by the soft US labour market. July and August NFP data have forced the Fed to reassess its assumption of a 'solid' labour market, and the Fed looks set to restart its easing cycle next week. Today's US data can shed a little more light on that reassessment of the US jobs market with the release of annual benchmark revisions in the year to March. In a recent speech, the Fed's Christopher Waller said the downward revision could be worth as much as 60k per month. And perhaps that's why the consensus for today's revision – due at 16CET – is around 700k for the annual figure. This time last year, the preliminary revision was -818k and it looks like we would need to see a bigger number than that to trigger a fresh leg lower in short-term US interest rates and the dollar.

Today also sees the release of the NFIB Small Business Optimism Survey for August, which is

expected to show gains after the dip in April. The employment component, rather than prices paid, will probably be the greater focus now.

The dollar has started the week a little weaker than we had thought. We still think short-dated USD money market rates could tighten into next Monday's US corporate tax deadline and that might lead to some very temporary dollar strength, but let's see.

DXY could find some support at 97.10/20 rather than directly testing the low of the year at 96.35. But the strong gains for gold and silver suggest investors are continuing to pursue inflation hedges – one of which the dollar is most certainly not.

Chris Turner

➔ EUR: French politics to drag

As expected, French PM Francois Bayrou lost his vote of confidence in parliament yesterday and has tendered his resignation. As my colleague Charlotte de Montepellier [writes](#), the question now is whether the discordant political parties decide to agree on the 'what' (how to reach an agreement on the budget) before agreeing on 'who' to lead the government. None of this can be seen as good news for the euro, and no doubt there will be episodic underperformance of French government bonds as investors speculate whether President Macron will be forced to call early elections.

EUR/USD, however, is doing fine. The drop in short-dated US rates has brought dollar hedging costs for euro area-based investors in US assets down to 2.12% per annum – the lowest since early April. This should encourage fixed-income investors in particular to raise their dollar hedge ratios and pressure the spot dollar exchange rate. It's just that our US money market story above discourages us from pushing for a big move through the 1.1830 high just yet.

The eurozone calendar is quiet today, but we do hear from a couple of ECB speakers: Joachim Nagel and Francois Villeroy de Galhau, both of whom are at a BIS Innovation Summit. Commentary on ECB policy looks unlikely so close to Thursday's ECB rate meeting.

EUR/USD may stall in the 1.1790/1800 area temporarily. But 1.20 is undoubtedly the multi-month target.

Chris Turner

⬆️ CHF: SNB seems more tolerant of CHF strength

We rarely hear from the Swiss National Bank, but in a wide-ranging [magazine interview](#) released yesterday, Swiss National Bank Governor Martin Schlegel seemed a little more tolerant of Swiss franc strength. This comes at a time when EUR/CHF is trading near 0.93 and USD/CHF under 0.80 – in other words, a time of a very strong nominal Swiss franc and a time when headline inflation is just 0.2% YoY.

Two comments stood out in the interview. The first was that there was a high hurdle to reintroducing negative interest rates. The SNB policy rate is currently zero and the next meeting is on 25 September. The second was that "considering prices, and thus costs for companies, are rising significantly faster in other countries, the real appreciation is not as significant as it appears at first glance." We've discussed the real Swiss franc quite extensively [in prior research articles](#), and

Schlegel's comments are a little surprising given that the real Swiss franc is now on its early 2024 highs – a time when the SNB turned more dovish.

We read the comments as the SNB being a little more relaxed about Swiss franc strength, a cut to negative rates being more distant and in a world where politics and debt sustainability are playing a greater role in FX markets, more encouraging of strategic positions long the Swiss franc. And the comments make a EUR/CHF retest of this year's lows at 0.9220 more likely.

Chris Turner

IDR: Local assets under pressure

We very rarely, if ever, write about the Indonesian rupiah in this space, but recent developments are worth some commentary. Populist forces are under pressure around the globe, and it seems in Indonesia, the fiscally responsible Finance Minister Sri Mulyani Indrawati has been forced out by President Subianto. Local asset markets are under pressure, and it seems that the central bank has been intervening to limit rupiah weakness near 1650/USD.

We mention Indonesia since its local currency bonds have quite a high weight – 3.5/4.0% – in global EM local currency bond indices. These indices have had quite an impressive 7% year-to-date total return, and investors there won't want any disorderly sell-off in local assets to undermine the year's good work. For reference, Indonesia's 10-year local bond yields have fallen from 7.20% to 6.40% over the last five months and could be a little vulnerable to some profit-taking.

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