

## FX Daily: Soft landing versus recession

Fed Governor Jerome Powell's announcement on Friday that the central bank will start cutting rates in September has sent the dollar to its lowest levels in over a year. A US soft landing is priced, which can see the Fed take rates down to some kind of neutral level at 3.00% late next year. For the dollar to get much weaker, a recession needs to be priced



US Federal Reserve  
Board Chairman  
Jerome Powell

### ➔ USD: The activity data will now be key

As James Knightley discusses [here](#), Fed Chair Jerome Powell used his speech at the Jackson Hole symposium to pre-announce the start of the Fed's easing cycle in September. Short-dated US rates fell about 15bp into Monday's session and the DXY dollar index sold off around 1%. In effect, Powell declared the inflation battle won, with the attention now turning squarely to the US labour market. The latter featured heavily in [Powell's speech](#).

Notably, US one-month OIS rates price two years forward remain at their lows at 3.00%. This pricing looks consistent with a soft landing and assumes some orderly – perhaps 25bp per meeting – Fed rate cuts through to autumn 2025. Arguably near 100, the DXY prices that scenario in and for DXY to break convincingly under 100, fears of a US recession will have to build. And in the middle of all this, we have US elections in early November.

Therefore, much lower dollar levels from here require much weaker US activity data, where focus will be given to the August jobs report on 6 September. This week sees some second-tier US activity data in the form of consumer confidence (released today and Friday), plus the weekly initial claims data (Thursday) and personal income and spending data (Friday). Given Powell's speech on Friday, the release of the Fed's preferred measure of inflation – the core PCE deflator – probably takes on a less pivotal role now. And a 0.2% month-on-month release is unlikely to move markets much.

We note the dollar is at some significant medium-term support levels. We do not think it needs to rally much from here, but equally, the catalyst for a major downside break-out may not be present this week. DXY looks set to consolidate in a 100.50-101.60 range for now.

*Chris Turner*

## ➔ EUR: A coiled spring?

We have been quite bullish on EUR/USD [this month](#). But the question is whether the move close to 1.12 marks the end of the rally or whether there is more to come. Technically, we think EUR/USD does resemble a coiled spring and that a move above 1.12 could trigger some strong follow-through buying as the speculative community sniffs out a new trend. Yet it is not clear from where that catalyst for a break-out will come this week. We have discussed dollar inputs above and from the eurozone side, the main candidate could potentially be Friday's release of the flash CPI data for August. Any upside surprise here could rein in the market's pricing of two-and-a-half ECB rate cuts by year-end, narrow EUR:USD two-year swap differentials still further and support EUR/USD.

On the subject of ECB rate cuts, let's see what the two hawks, Klaas Knot and Joachim Nagel, have to say when they speak today. Elsewhere, the run-up in oil prices on the back of increased Middle East tension and [Libyan supply challenges](#) will not be helping EUR/USD. And after a strong rally since early August, it looks like EUR/USD could be due some consolidation. We would favour a 1.1100-1.1200 trading range for now – waiting for some US activity data to disappoint.

*Chris Turner*

## ⬆️ GBP: Governor Bailey yet to turn fully dovish

UK money markets have yet to fully react to Bank of England Governor Andrew Bailey's [speech last Friday](#). Unlike Powell, Governor Bailey remained concerned over the "intrinsic" inflation in the economy and also felt that the economic costs of tighter policy could be less than what they were in the past. His comments stand to keep a wedge between US and UK rates, where money markets continue to price a shallower and slower easing cycle for the BoE.

GBP/USD could see some consolidation in a 1.31-1.32 range before moving higher still. EUR/GBP could make a run towards its recent 0.8400 lows. And it looks like we'll have to revise our medium-term sterling profile higher.

*Chris Turner*

## 📌 HUF: National Bank of Hungary to stay on hold today

The National Bank of Hungary (NBH) meets to set rates today. As ING's Peter Virovacz discusses in his [NBH preview](#), he believes that the upside inflation surprise in July and the slight deterioration in the country's risk perception may prompt the central bank to err on the side of caution this time. As a result, we expect the base rate to remain unchanged at 6.75%, while our call for the 2024 terminal rate remains at 6.25%.

The forint perhaps has not taken advantage of a higher EUR/USD as much as it should, but an on-hold decision today might be enough to get EUR/HUF back to 392. Overall, however, we expect EUR/HUF to continue trading in a 390-400 range medium term.

*Chris Turner*

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