

## FX Daily: Sticky wages, stronger euro

Today's data on negotiated wages in the euro area can favour some hawkish repricing in the EUR curve and another leg higher in EUR/USD, especially after dovish signals in the US came from both a large payrolls revision and the FOMC minutes. PMIs should continue to show the eurozone as a laggard in growth, but that has not bothered euro bulls so far



### ⬇️ USD: Bearish signals mount

The US revised down first-quarter payrolls by 818k yesterday. The market reaction was tainted by a delay in the release and probably some leaks about the figure but as James Knightley points out [here](#), the message is clear: the jobs market is softening from a weaker position than previously thought. If that wasn't enough of a USD-bearish argument yesterday, the FOMC minutes from the July meeting sent dovish signals. "Several" members saw a case for cutting in July and a "vast majority" considers a move in September as appropriate, as the focus shifted markedly to the employment side of the mandate.

Market pricing for September is at 34bp, still signalling some reticence to price in a 50bp move at the next meeting before tomorrow's Jackson Hole speech by Federal Reserve Chair Jerome Powell. However, the reasoning behind a 50bp September cut was that the Fed would "make up" for

missing out on easing in July, and yesterday's minutes all but endorsed that.

Today's price action will be influenced by S&P Global PMIs across some developed countries. These PMIs aren't as highly regarded as the ISM surveys in the US but have the benefit of comparability with the European ones, and markets have been on high alert for activity signals also coming from tier-two data in the US. Expectations are for a slowdown in the composite figure from 54.3 to 53.2 which should mostly be driven by services – although the manufacturing index should stay in contraction territory.

The “hard reset” in speculative positioning of the past few weeks has placed the FX market in the condition to take on new structural positions. We think the prospect of Fed easing means USD shorts will continue to prevail. Measures of trade-weighted US dollar are around 1% above the December lows. The way markets are trading Fed easing is similar to that in December and we see no reason to call for an inversion of the dollar bear trend for now.

*Francesco Pesole*

## **EUR: Don't be fooled by lower headline wages**

Euro bulls have had to overlook some soft activity indicators recently, and we doubt there are any expectations for a near-term recovery in the eurozone's growth outlook. Today's PMIs should just fall in line with the other sluggish surveys, and there is a tangible possibility the eurozone composite index will fall below the 50.0 expansion/contraction mark.

The question is whether the European Central Bank will react with faster easing due to slow growth. The answer to that depends on inflation and wage dynamics, which have so far argued against the doves. Today's ECB Negotiated Wages Indicator (for the second quarter) is a key release; the risk is that we see another disappointing print for the ECB after German wage figures were higher than expected. The first quarter print was 4.7% quarter-on-quarter, and while the headline number may decline, that may be down to one-off factors, and a closer look at the report may show the kind of underlying wage resilience that worries the ECB.

We have seen solid and stable EUR/USD bullish momentum and given the risks of a hawkish repricing in ECB rate expectations (at -70bp by year-end, they are still quite dovish), we retain a positive bias on the pair. The short-term fair value level has risen to around 1.13 in our calculations, so there is no strong technical impairment for another leg higher, in our view.

ECB minutes from July will also be published today, although the impact should be secondary to wage figures. Our near-term EUR/USD target of 1.120 is now well within reach, and the case for a break above that is getting stronger.

*Francesco Pesole*

## **GBP: Case for higher EUR/GBP is intact**

EUR/GBP has stayed generally pressured, likely due to the higher beta of the pound and the improvement in risk sentiment. We remain quite confident about a rebound though, and there are two potential triggers today (ECB wage data) and tomorrow (Bank of England Governor Andrew Bailey's speech in Jackson Hole).

As discussed above, markets may be inclined to price out some ECB easing if today's eurozone

wage figures prove sticky again, but PMIs may also have a say in EUR/GBP price action. The surveys have been a testament to the growing growth sentiment divergence between the eurozone and the UK, which has helped keep EUR/GBP capped. However, markets are clearly more accustomed to negative growth news in the eurozone, whereas a softer PMI read in the UK this morning can have a larger impact on Sonia pricing and the pound.

We maintain a short-term target of 0.86 in EUR/GBP as we see short-term spreads move in favour of the euro leg over the coming weeks.

*Francesco Pesole*

## CEE: Better days in the region

The Polish market quickly shook off the National Bank of Poland governor's comments on Tuesday but even so, conditions appear fragile. Yesterday's numbers from the economy were clearly on the dovish side but our economists are keeping their GDP forecast unchanged for now at 3% for this year, which is still the strongest in the CEE region. Today we will see more data from the Polish economy covering retail sales, where we are slightly below market expectations. This could revive the dovish NBP commentary again.

After almost touching 4.290 EUR/PLN the market bounced back to 4.280 and seems to be stabilising somehow. However, unless today's numbers surprise on the hawkish side, it seems too early for the market to start paying rates again – although we think this is the right direction. Even before the turn in the rates market later yesterday, the rate differential was rather pointing to levels around 4.300 EUR/PLN, which we would not say is out of the question for now. So today's data will be decisive. However, for the medium-term view, we believe that rate cut pricing has gone too far and EUR/PLN will go lower again sooner or later.

Elsewhere in the CEE region, EUR/HUF briefly touched 392 yesterday and we maintain a bullish view on HUF going to 390 ahead of next week's National Bank of Hungary meeting. EUR/CZK also moved below 25.10 for the first time since late June, strictly following the rate differential. Dovish expectations seem too far out here too, creating the potential for more CZK rallies. However, the calendar is empty in the Czech Republic for the coming weeks and the central bank is too quiet to trigger more momentum here. In the medium term, we could potentially see EUR/CZK below 25.00.

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