

FX Daily: Surveys to shed light on the soft landing thesis

FX markets are starting the week in a consolidative mood. The release of flash PMIs around the world this week will let investors know if they are correct in pricing soft landings. There are also a lot of Fed speakers this week, including Jay Powell on Thursday. And we should also see rate cuts in Sweden, Switzerland, Hungary and the Czech Republic



➔ USD: Waiting for more data

The dollar is trading in mixed fashion and has not seen any follow-through selling from last Wednesday's 50bp Federal Reserve rate cut. Friday's [less than hawkish Bank of Japan meeting](#) also provided some short term support to USD/JPY. Recall that USD/JPY has been the big beast dragging the dollar trend around over the last couple of months.

Looking ahead this week, the [US calendar sees a mix of activity and price data](#). So far investors have bought into the soft landing narrative offered by Chair Jerome Powell last week. And instead of the 50bp rate cut spooking equity markets, key benchmarks have continued to push higher. When it comes to activity, investors will be looking at today's S&P US PMI readings, consumer confidence data (Tuesday and Friday) and housing data (Wednesday). None of these readings are expected to have fallen off a cliff. Friday then sees the August core PCE deflator reading, expected

at an on target 0.2% month-on-month with a risk of 0.1% MoM. Interestingly our favourite Fed speaker, Christopher Waller, said he voted for a 50bp rate cut last week because inflation data was coming in too low. A 0.1% core PCE on Friday could potentially trigger another leg lower in US rates and the dollar.

In addition, we have lots of Fed speakers this week including some prepared remarks from Jay Powell on Thursday. Markets currently price in 35bp of cuts for the November Fed meeting and a further 30/32bp for the December meeting. We doubt this week's US data will shift that pricing dramatically but nonetheless, DXY should continue to trade not far from major support at 100.

Chris Turner

EUR: The manufacturing misery continues

Today's eurozone data highlight will be the release of the flash PMIs for September. Our team's take on these is a negative one, where subdued manufacturing sentiment (speculation about layoffs in this sector is growing) and a dip in services confidence (after the August lift from the Paris Olympics falls out) will leave the composite eurozone PMI indicator ever closer to the boom-bust 50 level.

We also have a renewed focus on French politics, where the new government has started to float the idea of tax hikes on businesses and the wealthy as a means of addressing France's nearly 6% of GDP budget deficit. This is not a great environment for the euro, nor for EUR/USD to push above major resistance at 1.12. Further EUR/USD consolidation in a 1.11-1.12 range seems likely, with downside risks early this week.

Elsewhere, one of our favourite FX barometers for the global economic cycle – EUR/AUD – is coming lower. This move is fully consistent with a reflationary environment and a steeper US yield curve. The trend may also be helped from the Australian/China side tomorrow. Here, the Reserve Bank of Australia is expected to continue to hold its semi-hawkish line, which means it will be the last of the G10 central banks to cut. And there is speculation that China could announce some domestic support measures tomorrow during a press conference held by the People's Bank of China and two other agencies. Look for EUR/AUD to retest the recent low at 1.6250 and probably head to the 1.60 area over the coming weeks and months.

Chris Turner

GBP: UK PMIs to outperform

The Bank of England's broad, trade-weighted sterling index is on its highs of the year. We are all waiting for a catalyst for the BoE's easing cycle to be repriced closer to that of the Fed – but no such catalyst has been forthcoming. That seems unlikely again today, where the flash UK PMIs for September are expected to continue outshining those in the eurozone. There is a sense that long sterling positioning is quite extreme. Yet the latest CFTC data published last Friday and covering activity to last Tuesday (17 September) actually showed quite a large reduction in sterling longs from the speculative community. In short, the speculative market is nowhere near as long GBP/USD as it was long USD/JPY in early July.

If softer eurozone PMIs are the dominant FX input today, EUR/GBP can continue to grind lower. 0.8340/45 would seem to be the next target here. And barring a surprise fall in the UK services PMI

today, there seems little on the UK calendar this week to challenge the market's shallow pricing of the BoE easing cycle.

Chris Turner

📈 CEE: Central banks in late stage of cutting cycle

While the economic calendar doesn't offer much this week in the CEE region, we do have two central bank meetings both set to see rates cut by 25bp. Today, we see retail sales in Poland for August. Our economists forecast that retail sales increased by 4.0% year-on-year, vs. 4.4% in July. Sales growth has moderated slightly in recent months but second-quarter consumption data suggests that demand is shifting towards services.

[The National Bank of Hungary](#) is scheduled to meet tomorrow. In line with expectations, we expect another 25bp rate cut to 6.50%. Communication of the next outlook will be key and we suspect another dovish shift following the Fed rate cut last week, and inflation back in line with NBH forecasts. Wednesday will be followed by the [Czech National Bank](#) meeting. Here we expect a 25bp rate cut to 4.25%. From comments made by board members last week, it appears to be a done deal and the main question is the terminal rate next year.

CEE FX is benefiting not only from higher EUR/USD, but also from rebounding local rates in recent days. We mentioned here our bullish bias for the entire region last week, which worked well, and retain it for the days ahead. However, the local story this week and the central bank meetings may change the picture a little.

HUF rallied in line with our expectations on Friday and we expect to go into Tuesday's NBH meeting with levels of 392-393 EUR/HUF, which should support a dovish tone. Therefore, the rate cut may be a reason for the market to turn around and we will look for bearish momentum again. Still, a higher EUR/USD should dampen a bigger sell-off in HUF.

Meanwhile, we believe the CNB meeting will be the next trigger for EUR/CZK to go below 25.00. The market is still pricing in too many rate cuts for next year – although we believe it makes no sense to go against the market here, FX should be the main beneficiary of the hawkish tone of the CNB. PLN will not see much momentum this week, but even here we believe there is still room for EUR/PLN to go lower below 4.270.

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