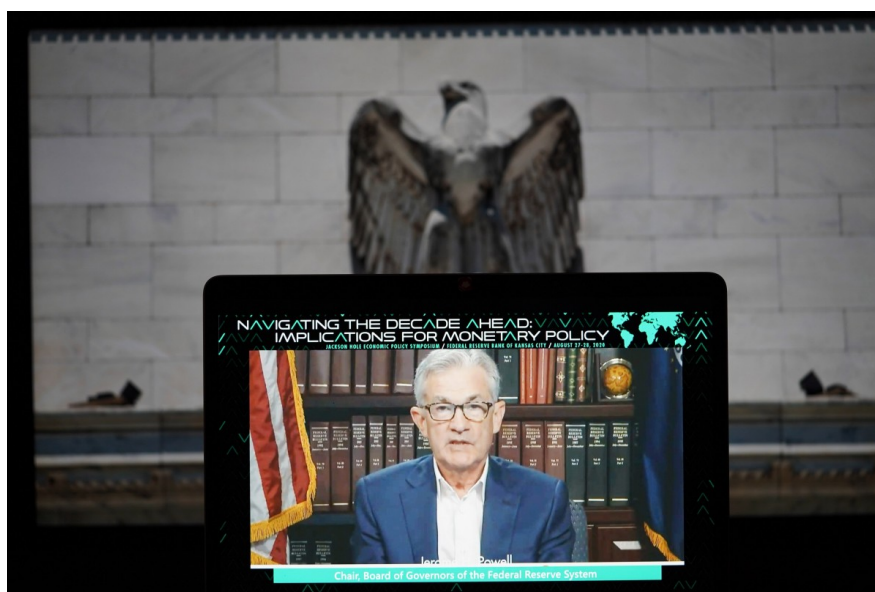


FX Daily: The calm before the Powell storm

The risk rally has lost some steam as Fed Chair Powell's speech tomorrow at Jackson Hole draws closer. We could see the dollar find some support into the risk event, but a wait-and-see approach may dominate price action today. Elsewhere, the ECB minutes look unlikely to drive any meaningful move in EUR/USD, which may remain below 1.1800 for today



Federal Chairman Jerome Powell delivering a speech to the Kansas City Fed's annual Jackson Hole research conference, which is held virtually this year because of the pandemic.

Source: Shutterstock

USD: Looking for some support heading into Jackson Hole

Markets have been navigating considerably calmer waters compared to last week as they approach the Jackson Hole risk event.

The Kansas City Fed will release the full agenda of tomorrow's speakers, after deciding to condense the two-day programme to Friday only at 20:00 ET (01:00 BST). Powell's speech is expected at 15:00 GMT (10:00 ET).

In a week where global risk appetite has strongly rebounded and activity currencies have pared a

share of their recent losses, Powell's speech is set to be a "litmus test" for risk assets. Essentially, it will tell us how sustainable the rebound in risk sentiment is and to what extent it has been driven by expectations of a more cautious tone by Powell tomorrow (i.e. hints that tapering will be delayed) due to the Delta-variant spread.

Today, a wait-and-see approach may dominate price action, also considering the calendar only includes the second reading of US 2Q growth data and jobless claims. Yesterday, the rally in equities paused, and gains in G10 commodity currencies were quite modest compared to earlier in the week. The dollar remained offered until yesterday but appears to be finding some support today as markets turn more cautious as the Jackson Hole risk event draws closer.

In emerging markets, BRL has continued to lead gains ahead jobs data to be published today, while the [Bank of Korea surprise rate hike](#) overnight failed to provide solid support to KRW. We'll see whether a more optimistic market can continue to drive USD/CNY lower and safely away from the 6.50 danger zone as the pair nudged higher overnight. This - along with idiosyncratic factors that we discuss in the "antipodeans" section below - will be key for AUD and NZD to keep outperforming most of the other G10 currencies.

📌 EUR: ECB minutes unlikely to shake the euro

Thanks to the partial unwinding of defensive trades that caused USD weakness this week, EUR/USD is back in the upper half of the 1.17/1.18 range.

Today, the focus in the eurozone will be the minutes of the ECB July meeting. Investors' interest will mostly be on any hint that policymakers will start discussing the unwinding of the PEPP at the September meeting. However, ECB's chief economist Philip Lane poured cold water on such a prospect yesterday as he clearly claimed he does not expect such discussion to happen already in September.

With that in mind, and other ECB members (Rehn, Villeroy, and Schnabel) set to speak today, the minutes may have a contained market impact. Even more so on the EUR, which has been less and less reactive to ECB inputs recently. The lack of clear bullish EUR drivers should keep EUR/USD below 1.1800 if the dollar bear trend comes to a halt today.

📌 GBP: Still a bystander

With no domestic factors currently driving sterling's movements, GBP/USD has been largely following the risk recovery higher thanks to USD weakness, although EUR/GBP remains quite stuck in its recent range. This looks unlikely to change today considering there is no data out of the UK.

Should the dollar stabilise into the Jackson Hole risk event, and considering that sterling appears to be lacking any clear catalysts at the moment, Cable could struggle to move back above the 1.3800 200-day MA today.

📌 Antipodeans: Downside risks for AUD remain bigger than for NZD

The Aussie and Kiwi dollars are leading gains in G10 this week after having been hit particularly hard in August due to the worsening of the virus situation in the APAC region. Some other factors appear to be underpinning this week's recovery.

NZD has benefitted from a de-facto confirmation that the RBNZ will hike in October from Assistant Governor Christian Hawkesby (who also hinted at a possible 50bp move), while a rebound in iron ore offered some support to AUD. Still, AUD remains more exposed to downside risks than NZD in our view, considering: a) iron ore prices could fall again (they are still well above their 2020 average); b) the Covid crisis in Australia remains serious, with lockdowns likely to remain in place in September, while the exit from recent restrictions in New Zealand appears more imminent; c) AUD cannot count on a domestic monetary tightening prospect.

The [latest positioning data](#) still showed AUD's net-short positioning as quite pronounced (while NZD positioning was neutral), although it was still within its 1-standard-deviation band, which suggests there is likely more room for a build-up in short positions.

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