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FX

FX Daily: The waiting game

It is a quiet start to the week in FX markets as investors wait on a whole raft of central bank policy decisions next week. This week the focus will be on tomorrow's release of August US CPI and what, if anything, it means for the key FOMC meeting on September 22nd. Let's see if investors choose to take some chips off the table this week.



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➔ USD: Staying bid in a range?

The dollar has started the week on a slightly firmer footing. Points of attention seem to be the Democrats putting some flesh on the bones of how they plan to pay their infrastructure bill, with reports suggesting they plan to raise corporation tax to 26.5% from 21% and capital gains tax to 25% from 20%. These proposed tax increases are lower than the levels mooted earlier this year - yet any progress of the infrastructure bill in the Senate later this month could make these redistributive tax proposals more of a reality.

As noted before, September has seasonally been one of the softer months for the S&P 500 and equity investors may be tempted to adjust to more risk-averse settings ahead of twin event risks in the form of the Fed meeting and any progress on tax hikes.

The data calendar is very quiet this week and as Francesco Pesole discusses in the [G10 FX](#)

[Week Ahead](#) the focus will be on August inflation releases - including the US reading delivered tomorrow. DXY looks like it could trade out a 92-93 range.

↓ **EUR: Optimism did not last long**

EUR/USD is drifting below 1.1800 again and the recent rally to 1.1900/1910 did indeed prove short-lived. The fact that EUR rates look set to stay deeply negative, perhaps even deep into 2023, will likely keep the EUR a popular funding currency.

The focus this week will be on ECB speakers, where doves Schabel and Lane speak today and Wednesday respectively. No doubt they'll give their dovish spin on the 'recalibration' of PEPP announced last week and provide some further headwinds to the EUR.

1.1750 looks the risk in EUR/USD on a day in which equity markets look mixed again as China continues to ramp up its regulation of its tech sector.

→ **GBP: Fiscal fears**

GBP continues to perform relatively well and has pushed towards the lower end of its 0.8500-0.8600 range. That largely looks a function of the EUR handing back some of last week's gains. Having successfully pushed through his plans for a national insurance increase last week (effective next April), the domestic focus is on the political backlash to such tax increases - and also whether any other tax increases will emerge in the Chancellor's autumn statement in October.

In terms of the GBP data calendar we'll be focusing on July jobs data tomorrow and August CPI on Wednesday. On the latter, the BoE has made it clear that it expects CPI to rise sharply this year - especially the October data when energy price caps are raised. Firm CPI should keep expectations in play of 2022 BoE rate increases - warning that EUR/GBP tests 0.8500, while Cable can better withstand any dollar strength on risk aversion this week.

⇒ **CZK: Faster CPI increases raise speculation of 50bp hikes.**

EUR/CZK traded down to a marginal low of 25.25 on Friday after August CPI came in sharply higher than consensus. This has raised speculation that the CNB could increase the pace of rate hikes and raise rates by 50bp at the September 30th meeting.

3x6 FRAs are now close to pricing in 100bp of hikes over the next three months and while it is always dangerous to underestimate how much the CNB can hike, it looks like most of this year's tightening is priced in. The fact that CZK has been a very well-backed FX story this year suggests EUR/CZK may not be heading in a beeline to the 25.00 area.

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