FX Daily: Time to talk about 50bp?

US Secretary Bessent said the Fed should cut by 50bp in September, and that rates are 150-175bp above where they should be. Markets aren't considering a 50bp move as an option, and we doubt they will unless there are hints in that direction from Fed members or if the jobs data falls much further. Today, Norges Bank should hold rates, with some minor hawkish risk

Treasury Secretary Scott Bessent (L) with Commerce Secretary Howard Lutnick and President Donald Trump last week

USD: Limited USD spillover from Bessent's Fed comments

Treasury Secretary Scott Bessent's comments on the Fed yesterday added fuel to dovish Fed bets. The USD two-year swap rate fell another 6bp yesterday to just under 3.40%, around 10bp below pre-US CPI. Bessent said the Fed's rate should be 150-175bp lower, and that the September cut should be 50bp. Markets aren't pricing in anything over 25bp for now, and a 50bp option would probably not be taken seriously unless there are some hints in that direction at the Jackson Hole symposium (21-23 August), or August jobs data hugely disappoints again.

The dollar had already started the day on the back foot yesterday, and it seemed unfazed by Bessent's Fed comments. What might have helped the greenback was Bessent's disagreement with EJ Antoni's idea to reduce the frequency of jobs reports.

Today's highlight is July's PPI, which is expected to have risen by 0.2% both on the headline and core series. That should reinforce markets' view that the inflation bump is tolerable from a Fed perspective. The other release we'll watch is continuing claims, which spiked to 1974k last week.

The proximity to tomorrow's Trump-Putin meeting might argue against adding much more USD shorts just yet. But the bias remains unequivocally negative for the greenback.

Francesco Pesole

EUR: Good momentum into Trump-Putin summit

EUR/USD is approaching tomorrow's US-Russia summit with good momentum, and the option market does not seem to be pricing in major volatility risk. One-week EUR/USD implied volatility is at the bottom of its recent range and in line with historical volatility.

Today, the eurozone calendar includes the second 2Q GDP release. The advanced print was 0.1% QoQ, although markets gave it limited weight given the heavy tariff distortion. Eurozone industrial production figures for June are also published today: expectations are for a soft print after Germany reported a surprise -3.6% YoY figure.

EUR/USD may stabilise around 1.170 for today, with a balance of risks still skewed to the upside.

Elsewhere in Europe, the UK published stronger-than-expected growth figures for 2Q: 0.3% QoQ and 1.2% YoY. That shows decent underlying activity growth despite the tariff-induced downward distortion. It's positive news for the gilt market ahead of the Autumn fiscal event, but it doesn't change the narrative for the Bank of England at this moment (inflation and jobs markets are the two main inputs), hence the reaction in sterling has been muted.

Francesco Pesole

NOK: No surprises by Norges Bank today

We previewed today's Norges Bank rate decision in this note. We think the conditions for another surprise cut like in June are not there this time. Underlying inflation has rebounded to 3.1%, headline CPI is at 3.3% and the krone has depreciated materially of late. The only dovish counterargument is the recent fall in oil prices, but a rather secondary one.

This is an interim meeting, so no new rate or economic projections are published. We expect Norges Bank will keep the door open to more easing later this year, with some risk of a slightly hawkish tweak in communication. Markets are pricing zero chances of a cut today, but 45bp by year-end.

We currently expect 25bp reductions in September and December, but admit risks are skewed to just one given inflation stickiness. EUR/NOK remains expensive, but the sensitivity of oil prices to any Russia-Ukraine headline means NOK is at risk of more short-term volatility. Our call is still for a return to 11.60-11.70 by the end of the year.

Francesco Pesole

CEE: The divergence between FX and rates indicates a growing imbalance

Following yesterday's GDP print in Poland, today we will also see figures from Romania. However, after Tuesday's inflation figures, it is difficult to see GDP changing the story significantly. Later today, the final inflation figures for July in Poland will also be released. Although CPI dropped significantly from 4.1% YoY in June to 3.1% YoY, we believe this decline is not enough to justify a 50bp rate cut as previously expected. Instead, we now expect a more gradual easing path, starting with a 25bp cut in September, followed by similar moves in October and November, bringing the NBP's main policy rate to 4.25% by year-end.

In markets, we can see a continuing divergence between rates and FX. We see a similar story in both markets. Market rates are heading downwards under pressure from falling core markets and more dovish expectations regarding Fed rate cuts. At the same time, CEE FX is benefiting from a weaker US dollar and the prospect of progress in the Ukraine-Russia conflict and lower energy prices. However, as we discussed here yesterday, while the tighter rate differential seems more justified, FX may be more fragile. Therefore, we believe it is worth continuing to monitor this gap between rates and FX in the coming days, helping to navigate ahead of Friday's meeting with a rather binary outcome.

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