FX Daily: Ultra-high data sensitivity

Markets likely overreacted to some lower-than-expected jobless claims yesterday, and we don’t expect long-lasting benefits for the dollar, which still has to realign with a less favourable rate profile. A move to 1.10 in EUR/USD remains on the cards. The CNB will release minutes from its last meeting, which should confirm its hawkish stance

USD: Overraction to jobless claims

The abnormally large reaction to jobless claims figures yesterday was a testament to markets' extremely elevated sensitivity to all sorts of indications on the US macro outlook right now. Perhaps many investors saw the recent equity selloff and dovish repricing in Fed rate expectations as an excessively pessimistic reflection of what's going on and were waiting for the first encouraging piece of data to pay USD rates.

In practice, the jobless claims report was not that informative. The decline from 250k to 233k was a surprise, but continuing claims actually rose in the week into 27 July from a revised 1869k to 1875k. That still indicates difficulties there for people wanting to rejoin the workforce.

Now, we can reasonably expect the market reaction to next week’s US core CPI numbers to be significant even for small (second decimal of a percentage point) deviations from the consensus

0.2% MoM. Any upside surprise would be a clear-cut USD positive, as equities would sell off. However, short-dated UST could also come under pressure on a hawkish Fed repricing, unlike in the first unemployment-driven stock market rout.

The Aussie dollar was the best performer on Thursday after the RBA Governor said she wouldn't hesitate to raise rates if needed. We continue to see upside potential for AUD/USD in the near term. The dollar is extending its rebound against the yen, and risks remain skewed to the upside for USD/JPY into the US CPI risk event.

Today, the data calendar only includes non-market-moving NY Fed inflation expectations and the July monthly budget statement. With two-year USD swap rates struggling to rebound above 3.80-3.85% as Fed rate cut bets by year-end prove sticky around 100bp, the room for the dollar to re-link with less supportive rate fundamentals remains wide. We still look for a return below 103.0 in DXY.

Francesco Pesole

EUR: Rate spread still points north

EUR/USD dived below 1.090 yesterday after US jobless claims data, but then rapidly rebounded as the initial move proved understandably overdone. The 2-year EUR:USD swap rate gap has only marginally re-widened to -104bp, meaning the case for a higher EUR/USD is still very much intact. The improvement in risk sentiment should incidentally favour a leg higher.

The risk is, if anything, that markets hold a more defensive view and tolerate an undervalued EUR/USD for longer ahead of the key US CPI risk event. Even in that scenario, we would think EUR/USD would flatten rather than materially depreciate given the favourable rate spread.

The eurozone calendar and ECB speaker schedule remain quiet, and we still look for 1.10 in the near term. We also continue to favour a EUR/GBP appreciation back above 0.860 despite yesterday's risk-driven correction.

Elsewhere, Norway's central bank has said it doesn't expect to cut rates this year, but today's core inflation data was a tad below consensus and does seem to be running a bit below Norges Bank forecasts. That, and the possibility of faster Fed easing, suggest we are likely to get at least one cut before the end of the year in Norway

Francesco Pesole

HUF: July inflation undermines the August rate cut but supports the forint

Yesterday's inflation in Hungary surprised slightly to the upside with a rise from 3.7% to 4.1%, but there is a bigger surprise here compared to the National Bank of Hungary's (NBH) forecast of 3.8% year-on-year. Given the rally we have seen in previous weeks in the HUF rates market, it is not so surprising that the market has started to reprice the current dovish expectations of central bank rate cuts. Still, the market is pricing in at least three cuts or even a little more than that with a chance we could see some movement this month.

That said, our economists say the inflation numbers do not strongly point to a rate cut in August and see room for only two more reductions this year. While we believe the market will stay on the dovish side of market pricing, there is some room for profit-taking and repricing up. HUF is thus getting some boost for gains after two weeks of depreciation. Yesterday, we saw EUR/HUF already moving lower, the most within the CEE region, and we expect more today below 396 and possibly more if rates remain paid.

Frantisek Taborsky

CZK: CNB paints a hawkish picture, but the economy shows otherwise

Today the calendar is empty in the region except for the Czech National Bank minutes. Last week, the central bank slowed the pace of cutting from 50bp to 25bp for the first time. The forecast showed only limited scope for rate cuts, well above current market pricing, and the governor would not give any forward guidance on what to expect next. So, the minutes could provide some indication of where the discussion is within the board. However, we can expect the minutes to be more on the hawkish side versus current pricing with 3.60% at the end of this year, implying 90bp of rate cuts.

The CZK has been the only currency strengthening over the last week and we still see potential for a continued rally here, especially if the market reprices current dovish expectations. On the other hand, economic data continues to surprise to the downside, which will make the case that the central bank is behind the curve and the market will have reasons to keep some rate cuts priced in, limiting the CZK.

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