

## FX Daily: Unruly EM currencies keep the dollar in demand

The combination of US yields at their highs and some intense pressure on emerging market currencies are maintaining the US dollar's status as a worthy safe haven. Today's focus will be on whether the Chinese renminbi falls any further after the surprise rate cut overnight and what should be some decent US July retail sales data. Expect the dollar to stay bid



### 📈 USD: Strong US retail sales should help

The dollar pushed ahead around 0.7% yesterday as pressure on EM currencies around the world encouraged more dollar demand. Very much in focus remains China's renminbi (CNY), which hit a new low overnight after the People's Bank of China [surprised with a 15bp rate cut](#) in its Medium Term Lending Facility. USD/CNH (the liquid offshore pair) has pushed up to a new high for the year above 7.30 and has its sights set on last October's high at 7.3750. We mention the renminbi so much in this dollar section since weakness drags most of the Asian FX complex with it and provides a bullish undercurrent to the dollar across the board.

Nonetheless, a rate cut from China is a stimulus and perhaps means that some of the commodity

currencies do not have to fall as much. The rate cut also provides a tailwind to renminbi-funded carry trades. In terms of what comes next from China, we could possibly see a cut in the required reserve ratio (RRR) on FX deposits - this was cut to 6% from 8% last September in an attempt to take some pressure off the renminbi.

In quiet markets, the US dollar might also be getting some support from events in Argentina (see below) and the market is watching USD/RUB trade through 100. Here, the Central Bank of Russia has an emergency rate meeting today, which is expected to result in a large hike and perhaps some tightening of capital controls.

For the dollar itself, July [US retail sales should be strong](#) and keep US two-year yields near 5%. It seems the market is indeed settling into the view that the policy rate will be kept at these levels for an extended period - providing few reasons to sell the 5%+ yielding US dollar.

DXY can probably trade bid within a narrow 103.00-103.50 range today.

And please take a look at our [August edition of FX Talking](#) for all our latest FX views.

*Chris Turner*

## ➔ EUR: Support turns into resistance

Developments in emerging market currencies yesterday saw dollar demand push EUR/USD through key support at 1.0930 yesterday. That level marked the 100-day moving average which had defined the downside of EUR/USD over the last couple of weeks. The question now is whether 1.0930 proves the top of the near-term trading range - it could well do.

In terms of the European calendar today, the focus will be on ZEW investor expectations for both Germany and the eurozone. These have been deteriorating for the last few months and are expected to fall a little more. Combined with a strong US retail sales figure today, EUR/USD could well trace out a 1.0875 to 1.0930 range and remain offered into tomorrow night's release of the FOMC minutes.

*Chris Turner*

## ➔ GBP: Sterling enjoys a temporary lift from the wage data

Sterling is rallying this morning after wage growth data surprised on the upside. Here is what our UK economist, James Smith, says about the data: "*Private sector wage growth is now running at 8.1%, up from 7.9% previously. These figures have been backwardly revised, so not all the upside surprise is in the latest month. But still clearly running much too fast for the BoE's liking and will help cement a September hike. The flip side is that unemployment is clearly rising now and employment on the "single month" measure was down by 360k vs three months ago.*"

James had thought that the wage growth could surprise on the upside, but equally, he feels that tomorrow's release of July CPI could see services inflation surprise on the downside. If he's right, today's EUR/GBP dip below 0.86 should prove temporary. The 0.8550/80 area may well hold in EUR/GBP ahead of tomorrow's CPI release.

*Chris Turner*

## 📌 ARS: The only way is down

Argentine officials devalued the Argentine peso (ARS) by close to 20% yesterday, which now means one US dollar buys 350 pesos. At the same time, the local central bank hiked rates by 21% to 118% in an attempt to get on top of inflation which is now running at 115% year-on-year.

The reason for the step-change in the pace of the depreciation in the official USD/ARS rate was politics. Weekend primary elections saw surprising support for libertarian candidate Javier Milei, who has no interest in the ongoing lending plans from the IMF and recommends dollarising the Argentine economy. The peso came under pressure on the back of these results and with no FX reserves to resist this pressure, the central bank was forced to speed up the ARS devaluation.

The result makes the outcome of October's general election highly uncertain and will question Argentina's path ahead with the IMF, where the Washington-based lender is currently reviewing whether to disperse the next \$7.5bn tranche of a \$44bn four-year programme. Argentina has had a tough year with drought hitting core exports of wheat, corn and soy and it clearly needs some help.

For multi-national corporates, the peso has been incredibly difficult to hedge. The one-year USD/ARS outright forward is already close to 1000 and hyper-inflation accounting means that even if corporates have been able to create local ARS liabilities to offset ARS assets, the ARS depreciation of local entity is still running through quarterly P&L accounts.

The road ahead looks a tough one for the peso.

*Chris Turner*

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