

## FX Daily: US CPI to cement dovish conviction

After a subdued PPI print yesterday, the chances of today's US core CPI exceeding the consensus 0.3% MoM are lower. We expect firmer conviction on three Fed cuts by year-end after today's release and a weaker USD. In the eurozone, the ECB meeting should have little impact on FX, with only some minor EUR downside risks. Geopolitics remains sidelined



We expect a 0.3% US core CPI print today

### 📉 USD: Expecting core CPI at 0.3% MoM

FX volatility has picked up modestly since the start of the month, but remains well below spring and even early August levels. The rise in geopolitical risk in the Middle East (Israel's strike in Qatar) and Europe (Russian drones downed in Poland) has failed to drive any sizeable FX reaction. It appears that markets are not seeing those events as likely to lead to escalations.

US data remain the most likely driver of any larger FX volatility shake-up at this stage. August CPI data is released today, and we are aligned with the consensus in expecting a 0.3% MoM core print.

Yesterday, US PPI came in notably subdued, falling -0.1% MoM for both headline and core

measures. July's figures were also revised down by 0.2pp, now showing a 0.7% MoM increase versus the initially reported 0.9%. The key driver was a sharp -1.7% MoM drop in "trade services" – a proxy for corporate profit margins. This suggests that, for now, firms are absorbing higher input costs linked to tariffs rather than passing them on to consumers.

This could reflect caution around end-demand prospects or a strategic reluctance to raise prices and risk public or political backlash. Either way, it reinforces confidence that the upcoming CPI print is unlikely to exceed 0.3% MoM, which in our view can help cement bets for three 25bp Fed cuts by year-end. Unless we see a major inflation undershoot today, speculation on a 50bp move next week should remain contained.

We believe the risks are skewed to the downside for the dollar today, as relatively benign CPI data could give the go-ahead to re-enter USD shorts that might have been partly held back ahead of the release.

*Francesco Pesole*

## ➔ ECB: Limited risks from ECB meeting

As mentioned above, markets are not showing much concern for the events in Poland. The Polish zloty is coming under some pressure this morning, but has lost a relatively modest 0.6% against the dollar and 0.4% vs EUR since the Russian drone news. Another European geopolitics benchmark – EUR/CHF – has actually traded higher after some dovish comments by the Swiss National Bank yesterday.

Markets' approach to the Ukraine-Russia situation has remained generally cautious but optimistic-leaning, as gains in high-beta European currencies accrued in August haven't yet been pared despite lacklustre progress towards a ceasefire. The benefits to the euro itself have not been significant, and the downside risks from a moderate unwinding of optimism should not hugely hurt the euro either.

Today's big event in the eurozone is the ECB meeting. As discussed in our [preview](#), markets might be underestimating the doves' opposition to the "good place" narrative pushed by President Christine Lagarde and the hawks. However, recent communication and the above consensus core CPI have made it increasingly likely that the ECB has already reached the end of its cutting cycle.

With political turmoil in France still on the front pages, markets may however be reluctant to fully price out the residual 15bp of easing priced in for 2026 just yet. All in all, we expect a quiet meeting with contained FX impact potential. If anything, we could see some euro softening as any comments on French bonds might be read as dovish indications. For now, we are looking at a re-stabilisation in the 1.170-1.175 area in EUR/USD ahead of the weekend.

*Francesco Pesole*

## ⬆️ GBP: Firming up

The pound has continued to firm up against the euro, as the narrative of dire debt servicing issues in the UK lost some steam. When looking at the infamous 30-year bonds, gilts have actually outperformed the rest of Europe since the start of the month, now yielding 25bp below the 3 September 5.74% peak.

The pound's much higher sensitivity than EUR and USD to back-end bond selloffs means downside risks remain ahead of a possibly chaotic pre-Budget (26 November) period. But higher front-end rates led by a hawkish Bank of England continue to make the pound an expensive sell against the euro in periods of gilt stability.

The UK releases July's GDP data tomorrow morning, although that is not on top of the data points likely to steer the MPC's views now. Next week, we'll see the key jobs and inflation numbers for August. Until then, EUR/GBP can remain gently offered.

*Francesco Pesole*

## ➔ NOK: Rate cut next week still our baseline

The Norwegian krone is the best-performing currency so far this week, lifted by domestic data and higher oil prices. Yesterday's CPI data for August showed underlying inflation staying at 3.1% against the consensus 2.9%. This creates some headaches for Norges Bank, which announces its policy next week. Markets have trimmed bets for a cut from 21bp to 17bp after the CPI print.

We admit this will be a closer call than previously expected, but we are still leaning in favour of a cut, considering rates are elevated at 4.25% and the recent NOK strengthening is seen as an incentive for action.

But we'll hold our call until we see the results of today's Regional Network Survey, which is conducted quarterly by Norges Bank and is highly regarded in the Bank's decision-making with regard to insights on output, employment, investments and price trends. The latter will be looked at quite closely, given the recent volatility in CPI numbers.

While we have been NOK bulls for some time, we think the room for further EUR/NOK depreciation is more limited now, and we see good chances of a return to 11.70 near term.

*Francesco Pesole*

### Author

#### **Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

#### **Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### **Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

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