

FX Daily: US prices and activity in the spotlight

It is a calmer start to the week in financial markets, where equities are stabilising and volatility is falling. This week will focus on US price (PPI and CPI) and activity data (retail sales). Consensus expects a combination of data that will allow the Federal Reserve to cut in September. We're mildly bearish on the dollar



➔ USD: Dollar should soften if conditions can settle

Given that Japan has been such a source of market volatility over the last six weeks, the fact that Japanese financial markets were closed last night has been welcomed by many. Equities in the rest of Asia were modestly up following the attempted recovery in US equities Tuesday through Friday last week. The focus this week will initially be on US prices. Will July PPI data (Tuesday) and CPI data (Wednesday) continue to provide confidence to the Fed that inflation is under control and allow the easing cycle to start in September? [Most think the answer to that question is yes](#). And will US activity (July retail sales on Thursday, plus earnings reports from Home Depot and Walmart) also point to consumers finally feeling the strain of restrictive monetary policy? Consensus expects weak growth here too.

We also get to hear from a few more Fed speakers as well this week, although the main Fed event

remains the Jackson Hole Economic Symposium on 22-24 August. When it comes to Fed expectations, stability in equity markets has seen investors dial back the expected 50bp Fed cut on 18 September more towards a 25bp reduction. Short-dated US rates are clawing back their fall from last week, but may struggle to push much further ahead given the conviction over the Fed cutting rates in September.

Assuming no upside surprises in US inflation this week, our bias would be that the current DXY rally stalls ahead of the 103.50 area before it dips back again. However, investors may also be keeping one eye on Russia-Ukraine developments and whether they represent a new and more dangerous stage in the conflict. Notably, European gas prices are on the rise again and we know from the 2022 experience that any spike in fossil fuel prices is a dollar positive.

Chris Turner

➔ EUR: On the beach

The eurozone data calendar is very quiet this week and there do not appear to be any European Central Bank speakers. This leaves the market to focus on the first revision to the second quarter eurozone GDP data. This is expected at 0.3% quarter-on-quarter, but as Bert Colijn discusses [here](#), the headline number belies weakness elsewhere.

EUR/USD has so far struggled to take advantage of narrower rate spreads. Last week we had been calling for a higher EUR/USD as equity conditions settled down. We still have this bias, but we will probably have to wait for tomorrow's US PPI release to get FX markets going again. 1.0900-1.0950 seems the likely short-term range.

Chris Turner

⬇ GBP: Data should fuel easing expectations

It is an important week for UK data, where we'll see both employment and CPI data. Our UK economist James Smith is slightly dovish on both, looking for employment and services CPI to come in slightly below market expectations. We think the market is pricing the Bank of England rate cycle a little too conservatively for the rest of this year and would expect EUR/GBP to find some good support in the 0.8500/8550 area.

When it comes to the BoE easing cycle, official speakers remain few and far between. We see no BoE speakers on the calendar over the next two weeks. At the [Jackson Hole symposium](#), it looks like BoE representation may be former deputy governor Ben Broadbent.

Chris Turner

⬆ CEE: Overly dovish market pricing as reason to be bullish

Today we will see the rest of the inflation picture in the CEE region. This morning, we saw the July numbers in Romania, which posted a rise from 4.9% to 5.4% year-on-year, above market expectations (5.1%). Later we will also see the numbers in the Czech Republic. Our economists expect stagnation at 2% YoY, the central bank's target, with a downside risk due to changes in energy prices. This is in line with market and central bank expectations. Core inflation should fall from 2.2% to 2.1%, slightly below the Czech National Bank's expectations.

Romania's industrial production data will be released on Wednesday, as well as second quarter GDP data for Poland and Romania, which should show a better picture compared to previous releases from the Czech Republic and Hungary. Also on Wednesday, we will see the final inflation data in Poland, which should be confirmed at 4.2% YoY. Friday will see the release of core inflation, which we estimate rose from 3.6% to 3.7% YoY.

Conditions for CEE FX have improved significantly in recent days and, as we mentioned previously, we are gradually turning bullish on the entire region. Firstly, we see EUR/USD heading towards 1.10 or higher, supporting the entire region – and we also see the return of players in the local rates markets. Additionally, after a significant rally in core rates in July, little is needed to support CEE FX.

In Hungary, the market was the first to reprice the cycle more dovishly after slightly stronger inflation. HUF rallied over the last two days, and we could potentially see more room in the coming days for EUR/HUF heading lower closer to 390. PLN also already has the conditions for a reversal, in our view, and we could see EUR/PLN below 4.30 this week. EUR/CZK moved earlier and although market pricing is also on the dovish side here, inflation numbers may add a reason to stay bullish on the CZK.

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