

## FX: Even greater focus on Jackson Hole

The global environment has clearly deteriorated since the July FOMC meeting and market participants are still hoping for a more pronounced dovish shift, possibly at this week's Jackson Hole symposium



Fed Chair, Jerome Powell

Source: Shutterstock

### USD: Even greater focus on Jackson Hole

The July FOMC Minutes reiterated Chair Jerome Powell's message from the July meeting; that the last interest rate cut was an insurance move and not the start of a pronounced easing cycle (although the FOMC was divided with some members looking for 50bp cuts and some for no cuts at all). While clearly disappointing those hoping for a dovish tilt and translating into weaker cyclical currencies, the effect should be temporary as the price action will be largely determined by Powell's speech at Jackson Hole tomorrow. As the global environment has clearly deteriorated since the July FOMC meeting (US imposing more tariffs on China, weaker data abroad) market participants are hoping for a more pronounced dovish shift. Unless this is delivered, and given the ongoing trade war overhang, the cyclical G10 currencies and emerging market FX are set to struggle while the US dollar is set to stay bid (benefiting from a Fed which is not overly dovish – vs market expectations – and solid US domestic data – relative to other major economies).

## **EUR: No help coming from domestic data**

The August eurozone PMIs should reiterate the deteriorating outlook for the eurozone economy. Services PMIs are to slip further while the Manufacturing PMI should remain in contractionary territory. This should keep EUR/USD under modest pressure. Still, market participants are already downbeat on eurozone growth and there are strong expectations of pronounced easing from the European Central Bank in September, so a more important driver of the near-term EUR/USD price action will be the tone and signals coming from Jackson Hole. In Italy, the political impasse continues and President Sergio Mattarella set a Monday deadline for a new prime minister (see [Italian politics faces yet another crossroads](#)).

## **GBP: Odds of a workable solution remain low**

Although German Chancellor Angela Merkel opened the door for the UK to come up with an alternative to the Irish backstop, in reality the odds of a workable solution (that would be accepted by the EU and the UK parliament) appear to be quite low. This should prevent sterling from making further short-term gains. Prime Minister Boris Johnson meets French President Emmanuel Macron today. Expect the headline news to be less GBP friendly than yesterday.

## **SEK: Reversal on cards after yesterday's gains**

The Swedish krona is set to reverse gains from yesterday weighed down by negative risk sentiment despite no real deterioration in today's labour market report. While the Riksbank is no longer a drag on SEK and the currency is undervalued on a medium-term basis, we remain bearish. We target EUR/SEK 11.00 level in three months as a possible escalation of trade wars should weigh on the low yielding, yet high beta SEK.