

## FX: What can Powell do to weaken the dollar?

Federal Reserve Chair Jerome Powell speaks in Jackson Hole today. But matching market expectations is going to be an arduous task, likely triggering an uptick in rates, and the dollar



How far will Fed Chair, Jerome Powell, push back market expectations?

### 📈 USD: Jackson Hole may be yet another disappointment for doves

As the Jackson Hole Symposium kicks off, the US OIS curve shows that almost three 25 basis point rate cuts are now fully priced in by 1Q20, with one more expected by end-2020. Markets have recently cemented their dovish views without any clear indication from the Federal Reserve that it may be leaning in favour of more aggressive easing. All this suggests a key preliminary consideration ahead of today's speech by Chair Jerome Powell (at 1500 BST): matching market expectations is going to be an arduous task. We suspect that while Powell may be unwilling to deliver a hawkish surprise, he will only marginally tweak the rhetoric seen in the July minutes. He may flag rising trade-related concerns but without diverting from the "mid-cycle adjustment" storyline, which is still underpinned by the buoyant economic backdrop. All this is unlikely to satisfy markets' dovish hopes and would probably trigger an uptick in rates, pushing up the dollar across the board. In order to see a different outcome (US dollar negative), Powell would likely need to tap into one of these tools: (1) drop the "mid-cycle adjustment" rhetoric; (2) hint at a possible

reintroduction of unconventional monetary measures; or (3) explicitly mention the strong dollar as an obstacle to the effectiveness of monetary actions (ie, as a curb on inflation). On balance, we doubt Powell will manage to match expectations and expect a combination of stronger dollar and weaker activity currencies today. Japanese yen may hold its ground better than other G10 currencies, as falling emerging market FX may keep appetite for safe havens supported.

## ⬇️ EUR: Italy's political future to be decided by Tuesday

It was a key day for Italian politics yesterday, as President Sergio Mattarella held talks with the main parties in an attempt to weigh the two different options left on his table: give a mandate to form a new majority or call snap elections. After both the Democratic Party and the Five Star Movement agreed to enter formal negotiations to form a new ruling coalition, the probability of early elections – feared by the markets – has likely reduced. The deadline to propose a new government is set for Tuesday. Nonetheless, caution is warranted, in particular when considering that it is still uncertain whether the two parties will have a majority in the parliament. Today, EUR/USD will likely be driven by Powell's speech: after yet another dovish signal by the ECB [in the July minutes](#), bearish sentiment on the euro could exacerbate the impact of a stronger dollar on the pair and we may see a decisive move towards 1.10 on the day.

## ➡️ GBP: Macron's push to GBP may not last long

Yesterday's comments by French President Emmanuel Macron lifted hopes of a Brexit deal and pushed sterling higher. This weekend's G7 meeting in France may provide some hints about the future of the UK's international relationships, but we remain quite reticent about a new deal with the EU being agreed before the 31 October deadline and expect GBP rallies to be short-lived.

## ⬇️ AUD: Seeking clarity in Lowe's words

As Reserve Bank of Australia Governor Philip Lowe speaks at Jackson Hole on Saturday, we may see a volatile start of the week for the Aussie dollar. On the day, AUD may weaken along with other risk-sensitive assets should Powell fail to match dovish expectations.

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