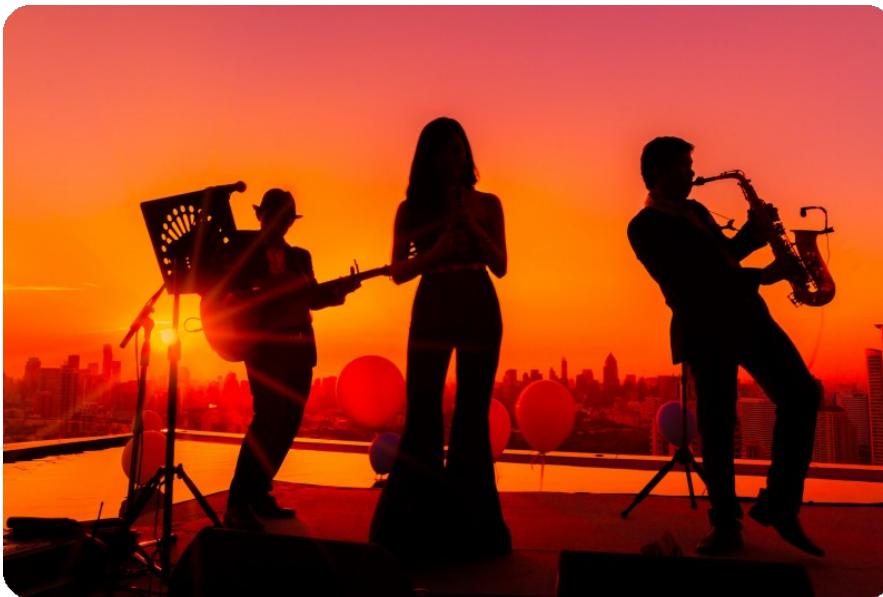


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FX TALKING

# FX Talking August: The dollar's still got the groove

High US rates, a surprisingly strong US domestic economy, and a soft overseas investment environment have all combined to keep the dollar strong this summer. It is hard to see this changing much over the coming months, but by the fourth quarter, we think there will be enough evidence of a US slowdown for the dollar to be embarking on a bearish trend



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## Executive summary

Far from June signalling the next leg of the dollar's cyclical decline, it merely represented noise in a largely range-bound summer for FX markets. It seems that US disinflation is just not enough to drive the dollar lower on a sustained basis. For that to happen we will need to see either the strong US activity data (particularly the labour market) start to weaken or a much more positive assessment of Chinese or European growth prospects.

Our call is still that US activity will succumb to tighter credit conditions later this year, inflation should move back to target and the Fed should be cutting rates by March 2024. After some more range-bound trading over this summer, clearer signs of the dollar bear

trend should be emerging into the fourth quarter – a seasonally weak period for the \$.

Until then the prospect of major central banks having virtually finished tightening cycles and keeping policy unchanged for an extended period is depressing interest rate volatility. This fuels interest in carry trade strategies, where popular funding currencies remain the North Asia trio of the Japanese yen, Chinese renminbi and Taiwanese dollar.

Unless we see another shock emerging – perhaps from China's real estate sector or the US bond market – it looks as though interest in carry will continue. This will see ongoing demand for the Latam high yielders and probably trigger BoJ intervention to sell USD/JPY in the 145-150 area. For EUR/USD, this probably means further range trade in the 1.09-1.11 area before a hard-fought move to 1.15 by year-end.

Two final points. AUD/USD looks very cheap and the Swiss National Bank's FX intervention has made the Swiss franc the strongest currency in the G10 space this year.

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