FX & EM Weekly Thoughts

Dollar premium roller-coaster

SIGNATURE

Notwithstanding some relief from Warsh's Jackson Hole speech, the dollar premium remains elevated and sentiment has turned negative. This raises the bar for further dollar weakness absent data deterioration or tangible financial repression policies.

USD | EUR | JPY | GBP | Commodity | Scandies & CHF | NJA | LatAm | EEMEA

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The value of fading extremes in the dollar premium

It has been an eventful August for the greenback. The dollar premium received a boost from the so-called "Treasury twist" and the reported option of drawing down the TGA account, revisiting post-"Liberation Day" highs. Chairman Warsh's hawkish-leaning Jackson Hole speech generated some relief, but the premium continues to hover close to sticky resistance levels associated with reversals in the past. Along with increasingly negative dollar sentiment, this implies a high bar for further dollar weakness absent data deterioration or tangible financial repression policies.

The FX implications of these initiatives have less to do with their mechanical links to FX flows, which are of secondary importance, and more with their signaling value. Unexpected off-cycle measures could be interpreted as a precursor to inflationary policies that end up undermining the Fed's already scrutinized commitment to price stability.

For instance, in an extreme scenario of outright yield curve control, the Treasury would have to fund massive buybacks of long-end debt via bills issuance. This would in turn likely require some sort of Fed involvement to keep the front-end anchored close to the policy rate, which ends up as a form of monetary financing. A dovish July FOMC already raised question marks around the Fed's resolve; these measures could raise even more.

That such scenarios are in principle dollar negative is fairly obvious. In fact, we already argued that the July FOMC implied the need for a higher dollar premium than before. What is less obvious is whether the distance from the announced USD 64bn (annualized) twist to the inflationary equilibrium just mentioned is so small as to justify a further increase in the dollar premium from very elevated levels. This is despite a limited and fleeting effect on bond yields from the announcement itself (also see here).

The dollar premium at the moment hovers around 5%, which sits very close to the upper end of the post-"Liberation Day" range (Figure 1). Such levels have proven to generate fairly sticky resistance in the past, breached to the upside only once in the last 10 years under exceptional

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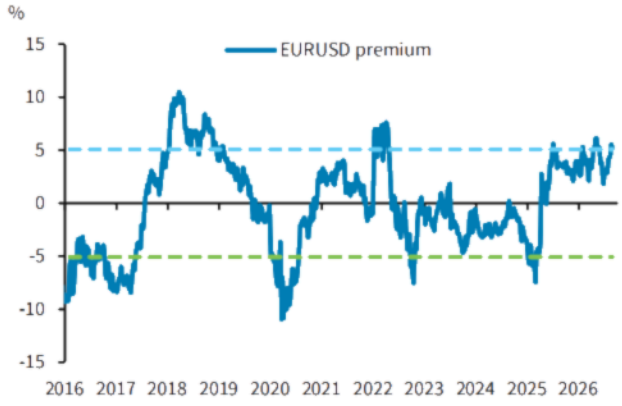
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circumstances: that was in late 2017-early 2018 when the market attempted to reprice the ECB's exit from QE. Accordingly, something equally exceptional likely needs to happen this time too, such as tangible (and not just theoretical) financial repression policies of the sort alluded to above.

In addition, dollar sentiment has turned sharply. The unwind of persistent dollar positivity ahead of the July FOMC aided the dollar's correction but the bar is now getting harder to clear (Figure 2).

Warsh's Jackson Hole speech illustrates the value of fading extremes in the dollar premium. For the first time since he took over, the Chairman offered a fairly comprehensive assessment of the economy and financial conditions, which was missing from his first two press conferences. Whether this was just a tactical pivot in response to the market reaction since the July FOMC could be tested further at the September meeting, subject to incoming data. Either way, the path to an ever-rising dollar premium is neither linear nor assured.

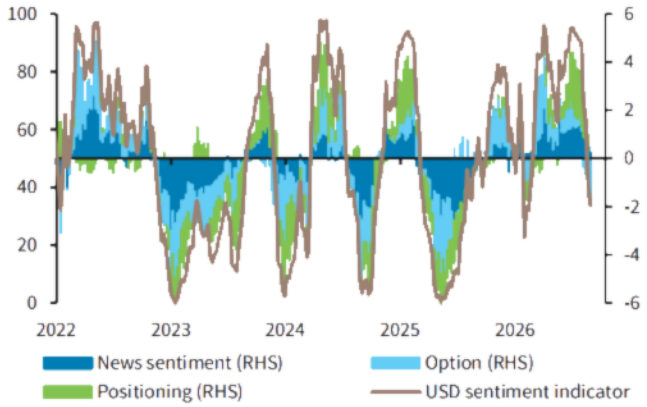
FIGURE 1. **The dollar premium is back at the highs**



Note: Dashed light blue and green lines represent +/- 1SE.

Source: Bloomberg, Barclays Research

FIGURE 2. **Dollar sentiment has turned negative**



Note: For a full description of our USD sentiment indicator, see FX Views: Dollar sentiment: weaker than meets the eye.

Source: Bloomberg, Barclays Research, Barclays Research Investment Science Team

Major data/events/speakers

FIGURE 3. **Major data/events/speakers this week**

	Date	Data / Speaker / Event	Barclays	Consensus	Comments
Data	31-Aug	Thailand: Jul trade			
		Turkey: Q2 GDP		2.5% y/y	
		Poland: Aug CPI		0.1% m/m, 3.1% y/y	
	1-Sep	Global PMIs			
		EA: Aug CPI	H: 0.6% m/m, 3.4% y/y; C: 2.5% y/y	H: 0.5% m/m, 3.3% y/y; C: 2.5% y/y	
		US: Aug ISM Mfg	55.5	55.2	
		US: Jul JOLTS	7200k	7380k	
		China: Aug RatingDog PMI Mfg	51	51.3	
		Indonesia: Jul trade	X: -0.6%y/y; M: 27.2%y/y	X: 3.10%y/y; M: 22.4%y/y	
		Indonesia: Aug CPI	H: 2.95% y/y; C: 3.08% y/y	H: 3.15% y/y; C: 2.85% y/y	
		Peru: Aug Lima CPI	4.43% y/y	4.5% y/y	
		Korea: Aug trade	X: 63.7% y/y; M: 22.3% y/y	X: 63.1% y/y; M: 25.3% y/y	
	2-Sep	US: Aug ADP		48k	
		Australia: Q2 GDP		0.3% q/q, 1.8% y/y	
		Korea: Aug CPI	H: 3.3% y/y	H: 0.4% m/m, 3.2% y/y; C: 3.4% y/y	
	3-Sep	US: Aug ISM Svs	53.5	54.3	
		Switzerland: Aug CPI	H: 0.06% m/m, 0.5% y/y	H: 0.1% m/m, 0.5% y/y	
		Switzerland: Q2 GDP		1.7% q/q, 2.2% y/y	
		Czech: Q2 wages		R: 5% y/y	
		Turkey: Aug CPI	H: 31.5% y/y	H: 31.61% y/y; 1.94% m/m	
	4-Sep	US: Aug labour market	NFP: 25k; UE: 4.1%; AHE: 0.3% m/m	NFP: 55k; UE: 4.1%; AHE: 0.3% m/m	
		Canada: Aug labour market data		Emp chg: 17.5k; UE: 6.4%	
		Czechia: Aug CPI		H: 1.9% y/y	
		Philippines: Aug CPI	H: 5.8% y/y	H: 6.1% y/y	
Central banks	31-Aug	Riskbank Jansson speaking			
	1-4 Sep	ECB speakers			Including Kocher, Nagel, Vujcic, Lane
	1-Sep	BoI Sep meeting	on hold	on hold	
	2-Sep	RBNZ Sep meeting	25bp hike	25bp hike	
		RBNZ Breman speaking			
		BoC Sep meeting	on hold	on hold	
		BoJ Takata speaking			
	3-Sep	RBA speakers			Including Jones, Hunter
		BNM Sep meeting	on hold	on hold	

Source: Bloomberg, Barclays Research

In focus

Leonardo Crimella, Barclays, UK | Erick Martinez, BCI, US | Christopher Ratkovsky, BCI, US | Lhamsuren Sharavdemberel, BSJL, Japan | Lemon Zhang, Barclays Bank, Singapore

USD

Dollar premium roller-coaster

It has been an eventful August for the greenback. The dollar premium received a boost from the so-called "Treasury twist" and the reported option of drawing down the TGA account, not so much because of their mechanical links to FX flows but more due to their signaling value as potential precursors of financial repression policies. Chairman Warsh's hawkish-leaning Jackson Hole speech last week generated some relief. That said, the premium continues to hover close to sticky resistance levels (c.5-5.5%) associated with reversals in the past. Along with increasingly negative dollar sentiment, this implies a high bar for further dollar weakness absent data deterioration or tangible financial repression policies. This week's data releases — ISM, JOLTS, claims and the August NFP report — mark the start of the next data cycle ahead of the 16 September FOMC decision, where Warsh's newfound hawkishness would be tested anew. A speech by Governor Waller on Thursday also bears watching, as he is seen as an influential member of the Committee.

EUR

Anti-dollar appeal back in focus

The euro's appeal as the main 'anti-dollar' has returned to the fore in the wake of the July FOMC meeting and Secretary Bessent's 'Treasury twist' pushing EURUSD to multi-month highs. Growth momentum is holding up so far in Q3 according to sentiment indicators, which should allow the ECB to deliver an additional 25bp hike in September. This, however, is fully priced, in our view, along with another hike by the turn of the year. Accordingly, we think ECB tailwinds remain limited, with more upside potential almost exclusively a function of US developments. Flash CPI for August (Tue) and final PMIs are in focus this week.

JPY

JPY under pressure even with September BoJ hike in the offing

The FX intervention on 30-31 July has curbed JPY depreciation pressures to some degree, signaling that a move well above 160 is unlikely to be tolerated. In this sense, it appears to be capping USDJPY to some extent. However, fundamental factors continue to weigh on the JPY, including a still-wide US-Japan yield differential, fiscal pressures and continuing Japanese investors' purchases of overseas assets. The market is now pricing a September hike with over 80% probability; however, sustained JPY appreciation may also require credible signals that the pace of policy normalization will accelerate.

GBP

Steady as she goes

The pound held steady in August as activity resilience, a small upside miss in the July core inflation and higher energy prices (including a higher Ofgem cap for Q4) prevented follow-through from the dovish lean of the August MPC meeting. The market remains priced for a 25bp hike by December and 50bp by April despite a relatively high bar for swing voters Lombardelli and Governor Bailey to vote for a hike in Bank Rate. That said, energy prices well sustain the market's hawkishness for a while. Fiscal risks are also likely t some point, though probably closer to the October Budget. This makes posit downside risk for the pound in the near term, in our view, with hedge funds t have been in over a year according to the CFTC database. Credit data (Tue), f speech by Governor Bailey (Fri) bear watching this week.

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Commodity FX

CAD's trade travails; the relative RBA vs RBNZ rate path looks mispriced

US-Canada trade talks remain the topical focus for **CAD**, and last week's negotiation breakdown was clearly negative. While we believe the path to a negotiated settlement will be extended, as our recent note elaborates, we also believe the macro impact will be limited. To this point, Friday's GDP data reinforced our 'green shoots' thesis: Q2 GDP grew 3.3% q/q AR, with net exports (4.4% contribution to growth), residential investment (0.7% q/q) and non-residential investment (1.0% q/q) supporting growth, offsetting a -4.9% contribution from inventories. Our leading indicators point to ongoing manufacturing, capex and exports growth — tariffs notwithstanding — and the high level of new orders/inventories points to inventory restocking. Critically, the data points to a potential stabilization in Canadian housing, after a multi-year recession. Given this, we retain our cautiously optimistic outlook for CAD.

We remain bullish on **AUD** amid cleaner positioning and a fairly resilient macro backdrop. Local data has firmed in August across sentiment indices, household spending and even inflation, while labour market indicators remain stable. Housing measures introduced in the last budget are a headwind on the margin, but we have shown that AI-linked commodity tailwinds dominate those by a considerable margin. There is already evidence that RBA policy is less restrictive than typically assumed and structurally stronger commodity demand could reduce restriction further. Accordingly, risks are skewed in the direction of more RBA hikes than the one priced by markets. The Minutes from the August meeting are consistent with this interpretation, in our view, with the Board appearing open-minded to further tightening should the data remain buoyant. Q2 GDP (Wed) and final PMIs are in focus this week.

The **NZD** underperformed its neighbor in August; we expect this to remain the case. The strong rebound in sentiment indices and a surprise hike in July fueled a sharp hawkish repricing of the RBNZ. This was subsequently put to the test with the increase in the unemployment rate in the Q2 jobs report in early August. Since then, sentiment indicators have stabilized or corrected and Q2 real retail sales missed to the downside. The market is already discounting a 25bp hike on Wednesday but is likely stretching the envelope with 75bps more tightening by mid-2027 given the momentum in hard data. As for positioning, the picture is more mixed. CFTC data shows that real money shorts have halved but fast money ones have hardly budged from the highs. This points to modest residual support potential from a further unwind of those shorts, albeit less so than a few weeks ago.

Scandies and CHF

The NOK's persistent overshoot; SEK and CHF to rally

The unnatural combination of a supply-driven squeeze higher in oil prices and risk sentiment resilience continues to benefit **NOK**, which has decoupled further from relative rates during August. Two consecutive months of large downside misses in core inflation tempered the Norges' newfound hawkishness somewhat at the August meeting. As things stand, the scope for multiple hikes beyond what's priced (25bp in the next few months) is fairly limited, with persistent currency strength helping to ease price pressures. In all, NOK resilience could extend if the high oil prices/resilient risk sentiment backdrop persists, but we continue to view this outperformance as a by-product of a rather atypical cross-asset combination. The rate differentials-implied level for EURNOK is closer to 11.25. The Norges' FX transactions will be released on Wednesday.

The krona is yet to reflect not only persistently positive momentum in demand-side indicators through the summer but also two successive upside misses in core inflation versus the Riksbank's forecasts. This is in part due to the Riksbank's underwhelming "wait-and-see" message from the August meeting, though we have already noted the lags between

improvements in Sweden's underlying backdrop and FX pricing. At any rate, the Minutes from that meeting read more hawkish than the statement, with swing voters Bunge and Hjelm probably closer to a hike vote in the not-too-distant future should economic resilience extend than generally perceived. Accordingly, risks are skewed in the direction of an earlier hike than by December per market pricing and we retain shorts in EUR**SEK**.

EUR**CHF** remains at fairly elevated levels in response to stronger FX interventions since March and a generally dovish bias by the SNB (versus a much more hawkish ECB). That said, we maintain our view that fundamentals are consistent with renewed franc appreciation over time. First, current account trends and growth data suggest that the local economy has been able to weather FX appreciation well to date, thereby implying limited overvaluation. Secondly, relative disinflation versus trading partners continues to support the upward drift in the franc via the law of one price. And, third, in our view, the SNB's reaction function has not changed much. FX intervention levels have likely not been stronger than in prior instances of large safe-haven inflows and there is a brewing tension between recent dovish-leaning policy decisions and the underlying assessment of inflation risks as "shifting to the upside" per the June meeting Minutes. Accordingly, a prolonged hold by the SNB (per a recent Bloomberg article "SNB Expects to Keep Interest Rate at Zero Until End of 2027," July 27, 2026), likely implies below-target inflation and persistent FX strength. This week's data focus is on August PMIs (Tue), the CPI release and Q2 GDP (Thur).

Non-Japan Asia

***Trade recommendations update**: We transfer ownership of our outstanding Receive 2y SORA OIS and 2y5y CNY NDIRS steepener recommendations to Mitul Kotecha.*

LatAm

MXN: With Banxico firmly on hold and inflation not far from target, we expect external developments to remain the main driver of rates. The long end of the curve remains vulnerable to spillovers from higher UST yields, particularly if markets reassess the Fed path, which should continue to support steepening pressures. We remain constructive on the MXN, as Mexico continues to benefit from the AI-driven investment cycle, which is emerging as an increasingly important source of support for exports and external accounts.

COP: The revised 2027 budget pointed to larger-than-previously estimated deficits and funding needs, suggesting that consolidation may prove more challenging than expected. Attention will now turn to the government's proposed adjustment measures (which, according to the government, could amount to 2.2pp of GDP in 2027), which will likely be key to restoring confidence in the fiscal trajectory. In the meantime, we expect COLTES to remain under pressure as investors reassess fiscal risks and the prospect of higher financing needs. We also see scope for some COP consolidation, as the currency was screening rich on our fair-value metrics.

CLP: Recent activity data suggest that weakness is extending beyond the commodity sector, reducing the likelihood of a hawkish shift in BCCh communication in the near term. While we continue to expect growth to recover in H2 and see scope for front-end rates to price a larger hiking premium over time, a more material repricing will likely require clearer evidence of a rebound in activity. We remain cautious on the CLP, as carry remains relatively unattractive in a higher-for-longer US rates environment and Chile's external accounts remain exposed to oil price gyrations.

PEN: August CPI (Tue) is likely to show inflation moving further away from the BCRP's target range. While the central bank continues to view recent price pressures as largely supply-driven, we see risks that inflation could prove more persistent, particularly if El Niño-related disruptions materialize. This underpins our economists' expectation that the BCRP will deliver

one hike in Q4 26 and another in Q1 27, supporting flattening pressures in the curve. We remain constructive on the PEN, supported by Peru's strong external position.

EEMEA

BoI to remain on hold

ILS: Our economist expects the BoI to remain on hold, but it is a very close call, as indicated by the almost evenly split Bloomberg consensus between a cut and a hold. In our view, a hold will have only a marginal effect on the ILS, while any shekel weakness in the event of a cut should quickly fade. US equity market performance remains the major driver of USDILS due to local investment fund flows. Our ILS-NDX model implies that the ILS has been quite stable in August once controlling for US equity gyrations, but the valuation model still shows a large USDILS premium. Hence, we retain our bullish bias on the ILS.

CZK: The koruna continues to be a beacon of stability in the CEE FX space, as its value is supported by a stable macroeconomic outlook and hawkish CNB pricing. In our view, the market has gone too far in repricing Czech front-end rates, as FRAs imply three 25bp hikes within the next 12 months, compared with our economist's call for no hikes. This week, Czech wages should surprise to the downside, as labour tax and social contribution data for Q2 showed weaker dynamics than in Q1. Even if inflation accelerates to 1.9% (as expected by the consensus), it would still remain below target and should not pressure the CNB to tighten policy anytime soon. So, we recommend receiving CZK 2y IRS (entry: 4.58, target: 4.15, stop: 4.80, 1m carry and roll: 6.4bp). The sell-off in Czech rates in July pushed our recommendation to receive 10 year CZK rates vs EUR to stop loss, so we close the recommendation marking a theoretical loss of 27bp.

HUF: The NBH delivered a rate cut last week, as expected, and highlighted that it will review its monetary policy framework and inflation outlook in September. In addition, the governor stated that the NBH will review its inflation target in light of the planned adoption of the euro and publish the results of the review in the autumn. In our view, the NBH's cautious communication should support the HUF and allow it to outperform the PLN. In addition, a lower inflation target would require tighter monetary policy, which limits the scope for declines in front-end rates but should support back-end yields and a flatter HUF curve.

PLN: The Polish government approved the draft 2027 budget and, in our view, next year's budget does not provide the fiscal consolidation that is needed. Moreover, risks are skewed towards lower-than-planned revenue. Therefore, we retain our view that longer-dated Polish rates should underperform their regional peers. On the face of it, the budget shows reasonable macroeconomic assumptions (nominal GDP growth of 5.8%), only a moderate increase in the nominal deficit (by PLN 11bn), and lower gross funding needs amounting to PLN 565bn. However, the Minister of Finance also stated that the general government deficit this year will amount to 7.1% of GDP (higher than the 6.5% announced last year) and will remain at the same level in 2027. Moreover, the budget assumes a significant increase in tax revenue that relies on changes to tax law. These changes, however, are likely to be vetoed by the President. This week's inflation print, if it surprises to the downside, may add to pressure on the PLN, as it would strengthen the case for a more dovish NBP.

ZAR: The rand and ZAR rates continue to be driven by global gyrations in the USD and US rates. Our proprietary model, however, shows that USDZAR entails a 2.7% premium, down from 4.5% the week before. This suggests that the ZAR is more resilient to USD rallies than in the past. Therefore, we expect the ZAR to be supported once the USD stabilizes, given its high-carry status and favourable terms of trade.

TRY: We expect the TRY to remain on its tightly managed path, with no change in the pace of depreciation in the near term. Last week's announcement that the CBT will lower the effective policy rate to the level of the official policy rate, ie, 37%, was well received by the market and did not trigger any pressure on forward-implied rates. This indicates that demand for TRY remains stable. However, persistently high oil prices will continue to weigh on Turkey's current account, which in turn should add depreciation pressure to the currency.

Data calendar

Main economic events, major data releases including our forecasts, as well as a snapshot of key official interest rates and a calendar of global key events are available **here**.