

FX Daily: Settling into summer

FX volatility levels continue to fall and will do so further unless Friday's US June NFP figure makes the case for earlier Fed action. Look out for comments from NY Fed's John Williams at 15CET today. He's a dove, but any change in tone could give the dollar a lift on an otherwise quiet Monday.



➔ USD: What can stop the decline in volatility?

Levels of global FX volatility are languishing at their lows for the year, no doubt aided by abundant global liquidity and no immediate signs that this condition will be reversed any time soon. The hawkish Fed meeting of June 16th saw volatility rise for just two days and that move has been completely reversed. If the search for yield amidst low volatility is akin to an oil tanker, clearly changing its course will require a lot of work.

It is not clear that this week's events can make a major dent in that search for yield - even though we do have the June NFP on Friday. As we discuss in our [G10 FX Week Ahead](#), it will probably take a jobs number closer to the one million mark to shake up the US rates curve and FX markets once again. Before then we hear from an important Fed speaker today at 15CET, NY Fed President John Williams. He is speaking at a BIS event. The NY Fed President is a very influential voice on the FOMC

and John Williams is at the dovish end of the spectrum. Let's see whether he feels the need to elaborate on the substantial progress needed for the Fed to consider tapering or any fresh views on the transitory nature of inflation.

Assuming his remarks do not upset the carry trade, the FX market is then left looking at stories of which central banks may be next in line to shift to a more hawkish setting. The terms of trade gains and positive income shocks have helped Norway and Canada to the front of the tightening queue in the G10 space. We wonder whether Australia should also be enjoying a re-rating and look out for a speech from RBA Governor Lowe tomorrow ahead of an important policy meeting on July 6th.

For today, expect DXY to trade a narrow range around 92.00 unless the Fed's Williams says something remarkable.

➔ EUR: One year implied volatility looks set to go sub 6%

On the subject of volatility, one-year EUR/USD implied volatility looks set to very shortly dip below 6.00%. That would tend to favour tightening ranges in EUR/USD in the 1.19-1.20 area. The focus in the Eurozone this week will be the first look at June inflation data, although consensus expects both headline and core to edge lower in YoY terms.

We will also see a whole host of ECB speakers this week and today hear from Bundesbank President, Jens Weidmann. Last week he made remarks favouring a normalisation of ECB monetary policy in 2022. For the market, the interest is probably what happens with the ECB PEPP scheme at the September 9th meeting, thus any remarks surrounding this could nudge markets on an otherwise quiet Monday.

➔ GBP: Waiting on the June 30th N. Ireland deadline

GBP handed back some of its recent gains on Friday and politics may play a role this week. Not necessarily the resignation of the Health Secretary, but Wednesday's deadline on mainland UK's exports of chilled meats to N. Ireland. The mood music on this had been positive last week, but failure to hear anything before Wednesday - e.g. would the waiver on EU rules be extended to end-year and would the UK propose this unilaterally - could un-nerve GBP.

EUR/GBP looks set to continue trading quiet ranges unless we see a break above the 0.8610/20 area - where some GBP under-performance could emerge.

⬆️ NOK: OPEC+ will be the highlight of the week

Other than Friday's NFP figures, the highlight of the week will be Thursday's OPEC+ meeting. Our commodity team preview the meeting [here](#). Expect lots of source comments to emerge over the next few days. Most seem to expect the group to agree on an extra 500-550k barrels per day in supply. Any larger increase could briefly hit crude and NOK.

Yet despite NOK being widely held, and also being a very high beta currency on the US rate story, expect there to be plenty of interest to buy NOK on any dips this week. We expect EUR/NOK to end the year at 9.80 and NOK to be one of the few currencies to make gains against the dollar - even with the Fed turning a little more hawkish.

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