

## FX Daily: Hard to buck the dollar's good momentum

Overnight, policymakers in New Zealand left rates unchanged but were even more hawkish than the market in their rate-path projections. We still expect two 25-bp hikes by year-end. Meanwhile, the current unstable risk environment and possibly more hawkish hints coming from the FOMC July minutes could continue to offer some support to the dollar



### **USD: Fed minutes could endorse USD good momentum**

Investors have continued to hold on to their defensive trades, as the spread of the Delta variant and restrictions being re-imposed in some countries (New Zealand was the latest to announce a nation-wide lockdown) are pairing with lingering concerns about the impact of China's regulatory crackdown and geopolitical instability in the Middle-East.

Such an unstable risk environment naturally supports the dollar, and some mixed US data (weak retail sales and strong industrial production) for July only appeared to add to the bullish sentiment on the greenback yesterday. With most of the risk-averse sentiment currently coming from China, the antipodeans are inevitably the worst hit, but we also saw currencies sensitive to eurozone sentiment – like SEK in G10 and CEE FX in EM – following the EUR/USD lower yesterday. A break above 6.50 in USD/CNY and a break below 1.1700 in EUR/USD may generate more spill-over into currencies exposed to China and EZ, and continue to offer widespread support to the dollar today.

Incidentally, the minutes from the 28 July FOMC meeting could endorse the bullish sentiment on USD. First of all, investors will be looking for hints about the Fed's assessment of the state of the US economy, although any extra-cautious comment may not be taken as a dovish signal considering the meeting was held before the strong July jobs data, and the post-NFP Fed speak has been quite hawkish. A special focus will also be on any discussion about the timeline for unwinding QE, especially after some members voiced their expectations for tapering to start already this fall. Any confirmation on this side should cement the view that the Fed will unveil more details of its tapering plan at the 26-28 August Jackson Hole symposium, and ultimately offer yet another supportive narrative for the dollar.

### ⬇️ **EUR: 1.1700 looking fragile**

The euro likely missed the last chance to be rescued by domestic data this week as yesterday's decent growth data (in line with consensus) were largely ignored by the market. Before the 23 August PMIs, there are no clear data drivers in the eurozone, and the dollar's strength could continue to put pressure on EUR/USD. Indeed, 1.1700 is starting to look like a fragile support, and the next key level to watch could be the 1.1600 November 2020 low.

### ➡️ **GBP: Inflation's summer swings unlikely to be a game-changer**

After good jobs data failed to help the pound yesterday, this morning's below-expectation CPI numbers failed to send the pound much lower. In our view, this is because the fall in inflation to 2.0% in July was mostly due to some base effect (prices spiked in July 2020 after the first re-opening), and markets are likely expecting a rebound in August prices. In practice, the volatility in inflation numbers in the near term is likely set to have limited implications for the Bank of England's policy stance, with policymakers that are mostly focused on price growth dynamics in 2022 to time the unwinding of monetary policy.

There are no other data releases in the UK today, and any chance for EUR/GBP to turn lower again will likely rely on a material improvement in the global risk sentiment considering the higher beta shown by GBP compared to the EUR, lately.

### ➡️ **NZD: RBNZ as hawkish as it can be without hiking**

The RBNZ kept rates on hold at 0.25% overnight, failing to meet market expectations of a rate hike. However, policymakers were very explicit in signalling this is most likely a mere delay – caused by the recent lockdown announced in New Zealand – to the start of their rate-hike cycle. The rate-path projections were actually more hawkish than we, and the market had expected. Along with having more than one 25-bp rate hike projected by year-end (average projected OCR in 4Q21 at 0.59%), the RBNZ forecasted that the OCR will rise to 1.6% by the end of 2022, which is actually higher than what the swap market is currently pricing.

On the back of this, we remain confident on our call that the RBNZ will hike rates twice by the end of this year, once in October and once in November. NZD will still have to rely on an improvement in sentiment to fully benefit from it, but it still looks set to have the most attractive rate profile in G10 in the medium term.

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