

FX Daily: Calm ahead of the FOMC tomorrow

Dollar crosses should stay range-bound today, ahead of the July FOMC tomorrow. Globally, the focus today is on the IMF's interim update of its World Economic Outlook. In Hungary, the NBH should deliver a hawkish 30bp hike today, in turn lending some support to HUF.



➔ USD: Calm ahead of the FOMC tomorrow

With the July FOMC meeting looming tomorrow, we don't look for any meaningful moves on dollar crosses today. Rather, investors are set to stick to their wait-and-see approach. On the margin, the bias is for a gently bid dollar given the risk of some modest hawkish bias from the FOMC (see the [FOMC Preview](#) for details).

As for today, the IMF is releasing an interim update on its World Economic Outlook. In April, the fund saw the world growing by 6% in 2021 and by 4.4% in 2022. It will be interesting to see if the IMF downgrades China's forecasts much, if at all. In April, the IMF had China growing at 8.4% in 2021 and 5.6% in 2022. With emerging market economies understandably lagging in the vaccination race, portfolio flows to EM have been in reverse over recent weeks, another factor why the dollar may stay supported near term.

➔ EUR: Range bound EUR/USD

It is a very calm day on the EZ data front. June M3 money supply will have a limited impact on the euro. We expect EUR/USD to hover around the 1.1800 level today, with downside risk towards 1.1700 later this week given the possibly modestly hawkish FOMC. Among Scandinavian FX, the previously battered NOK continues its recovery, and we look for EUR/NOK to move below the 10.40 level

⬆️ GBP: Settling in the EUR/GBP 0.85-0.86 area

GBP got a boost from falling Covid cases in the UK, helping to reverse some prior losses partly caused by the previous worsening of the Covid situation and concerns about the effect of the full easing of restrictions. EUR/GBP has now closed a meaningful part of its prior mis-valuation and is now close to its short-term fair value of 0.8500 (based on our financial fair value model). We expect EUR/GBP to remain firmly in the 0.85-0.86 range today. The [cleaner speculative GBP positioning](#) (ie, GBP being no longer heavily overbought) also points to near-term stability in the currency.

⬆️ HUF: The NBH is giving a helping hand to the forint

With an upside surprise to June inflation, we expect the NBH to deliver a 30bp effective rate hike today, moving the base rate and the one-week deposit rate to 1.20%. The forward guidance and the tone is to remain unchanged, pointing to more hawkish steps in the coming months. We expect another 30bp hike in August and see the NBH benchmark rate at around 2% by the year end. The continuation of the frontloaded NBH tightening cycle should be positive for HUF and move EUR/HUF back below the 360 level.

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.