

## FX Daily: 75bp hike seen in Canada, 25bp hike expected in Poland

We expect the Bank of Canada to hike by 75bp and to maintain a hawkish tone for future tightening. In Poland, we see risks of a dovish surprise, as the NBP may only hike by 25bp and sound less hawkish after recent data. Elsewhere, good ISM data has reinforced Fed pricing and the dollar's momentum, while the risk of JPY intervention is rising significantly



We have recently published our monthly update of FX views and forecasts: [“FX Talking: This is going to hurt”](#)

### ➔ USD: Eyes on Fed speakers, and on the BoC's rate hike

The dollar has remained bid since the start of the week, and was bolstered yesterday by a surprise

rise (albeit marginal) in the US ISM service index. Our economist thinks yesterday's figures endorse our 3%+ 3Q GDP forecast for the US. A solid growth story is indeed a key source of momentum for the dollar rally as markets feel increasingly confident with their pricing for more aggressive Fed tightening. A 75bp hike in September is almost fully priced in now (69bp are embedded into the swap market), but barring any big data disappointment, the room for any dovish re-pricing appears limited at this stage.

The sharp underperformance of the Chinese yuan and Japanese yen has continued to fuel dollar strength too. This morning, a miss in Chinese trade data sent USD/CNY to test 9.9800, erasing efforts by the People's Bank of China to support the yuan. It remains to be seen how much Chinese authorities see 7.00 as a pivotal level: it's possible that policymakers may want to keep USD/CNY below such a level, at least until the party congress is over. Further east, Japanese authorities are again trying verbal intervention as a way of supporting the yen, but markets appear quite happy with testing their tolerance. 145.00 might be the line in the sand: expect any FX intervention around the US or European open when markets are most liquid.

Today, the Fed's Beige Book will be scanned in search of regional economic trends, but the main focus will be on a few Fed speakers. Quite interestingly, we'll hear from both sides of the spectrum: the quite dovish Lael Brainard and the hawk Loretta Mester. Both are voting members in 2022. Thomas Barkin is also due to speak today, while Chair Jerome Powell will deliver remarks tomorrow.

For now, we see little reason to call for any reversion in the strong dollar pattern. The domestic story was fortified by yesterday's data and there are no major data releases today, so ultimately the Fed pricing should not be too heavily affected even in the event of some dovish Fed speak. DXY should remain around its highs.

Elsewhere in North America, the Bank of Canada will announce monetary policy today. [In our meeting preview](#), we highlight how the recent jitters to Canada's growth story suggest another 100bp move is unlikely, but a 75bp rate hike (to 3.25%) is our base case considering that the employment picture remains rather strong and the BoC has remained firm in its intent to fight elevated inflation.

75bp appears to be the call from both economic consensus and the market, and we therefore think forward-looking language will drive most of CAD's reaction today. With "data-dependent, meeting-by-meeting" having become the leitmotiv of developed central bank policy communication lately, there's surely a risk the BoC will refrain from offering any strong hint on future policy, but a reiteration that more substantial tightening is needed could be enough to see markets push their expectations for peak rates from the current 3.8% to 4%+.

CAD is currently going through a rough period, and any support from the BoC today may fade rapidly. However, aggressive tightening by the central bank does raise the upside potential for the loonie beyond the short-term, when a stabilisation in sentiment and solid fundamentals may allow it to recover. We target a return to sub-1.25 levels in USD/CAD early next year.

*Francesco Pesole*

## ➔ EUR: A bit of calm before the ECB?

As of this morning, markets are pricing in 66bp of tightening by the European Central Bank at

tomorrow's announcement, but - as discussed in [our economics team's preview](#) - our base case remains a 50bp hike. This obviously widens the scope for a further weakening of the euro later this week, but for today, some wait-and-see approach ahead of the big risk event could cap EUR/USD volatility, and the pair may enter tomorrow's meeting from the 0.9900 level.

A thread to keep an eye on this week aside from central bank activity is the ongoing discussion among EU members about solving the energy price problem. This may have particular relevance for the ECB as an EU-wide cap on energy bills would likely put a lid on inflation expectations, as well as offer a lifeline to the battered economic outlook. German Chancellor Olaf Scholz has continued to push for an agreement on price caps and stated yesterday that this could prove to be a relatively quick mechanism to implement.

*Francesco Pesole*

## 📈 GBP: Expect more of the "Truss effect"

The change of Prime Minister in the UK is most surely being felt by asset prices. Yesterday, gilts took a big blow, and the pound was the only G10 currency holding on to gains against a rising dollar as Liz Truss took office and reports about draft proposals piled up.

So far, what we know is that Truss is planning a £130bn bill to freeze energy bills, to be paired with measures worth £40bn to support businesses. While Truss has also pledged to cut taxes in an effort to support the economy, it's been reported that the new cost-of-living support packages would likely be funded by a bigger deficit instead of loans/grants to energy companies. All this matters for sterling not only because it has an impact on the growth outlook and Bank of England policy, but because it may have rather wide implications for the UK's debt position. This is a factor that FX may start to be increasingly sensitive to especially in those instances (like the UK) where there is an increasingly negative current account balance.

On the foreign policy side, it's been reported that Truss is planning to ease the confrontation with the EU over post-Brexit agreements, and refrain from activating Article 16 of the Northern Ireland Protocol which allows the UK to unilaterally suspend parts of the agreement. This is undoubtedly a GBP positive, even though markets had not given a great deal of importance to the previous government's standoff with the EU on Brexit.

Today, expect more GBP volatility as details about Truss's plans continue to emerge. However, the net impact of support measures may not be too straightforward as they may easily get mixed in with the implications for BoE policy. EUR/GBP may edge back above 0.8600 today but seems to lack strong bearish momentum, while cable could re-test 1.1600.

*Francesco Pesole*

## 📉 CEE: NBP slows hiking pace

Today in the region we have the second estimate of GDP in Romania, which should show the details of the surprisingly strong economic growth in the second quarter. Also, we will see the release of industrial production in Hungary and Czech National Bank FX intervention data for July. We previously estimated that the CNB spent almost EUR11bn in July, almost half of all costs since mid-May. However, central bank activity since then has been almost zero by our estimates.

Later today, we will see the highlight of the week in Central and Eastern Europe, the National Bank

of Poland's decision. Our Warsaw team [expects a 25bp rate hike](#) to 6.75%, but a 50bp hike may also be on the table. The key though will be governor Adam Glapinski's press conference on Thursday which, given the latest economic data, should be dovish in any case. Markets are shifting rather to the hawkish side after the latest inflation number. So we think the market is expecting a clear response from the NBP to the surprisingly high inflation data and it will be very difficult for the central bank to meet hawkish expectations. Moreover, the NBP has surprised with a smaller step twice out of the last three meetings and in all three cases, it resulted in lower market rates. We think market conditions will lead to the same situation this time again. The Polish zloty is thus vulnerable both from the global environment due to the gas story this week and the domestic environment due to the dovish NBP.

*Frantisek Taborsky*

## Author

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@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 [www.ing.com](http://www.ing.com).