

FX Daily: Add poor Chinese data to the bullish dollar mix

Manufacturing PMIs in China came in weaker than expected and in contraction territory, generating a risk-off wave this morning and helping the greenback stay in demand. Given the ongoing hawkish repricing of Fed expectations, the US dollar can remain supported for a bit longer. Elsewhere, the Swedish krona's freefall may not stop just yet



PMI

USD: China's data keep the dollar attractive

A correction in the dollar following a long weekend in many parts of the world and fuelled by the US debt limit bipartisan deal proved rather short-lived. What is still offering a good deal of support to the dollar is the market's rising speculation for another 25bp hike by the Fed in June, which is now priced in with a 64% implied probability, according to the Fed Funds futures curve. Should the Fed pause in June, markets attach a 98% probability to a hike in July, while currently price in less than 50bp of easing before the end of the year. There are three key data releases between now and the 14 June FOMC announcement that can tilt this hawkish narrative: May's jobs data (on Friday), May's ISM services (next Monday), and May's inflation figures (13 June). Barring material downside surprises on those data points – especially payrolls and CPI – the dollar may keep

enjoying some backing into the FOMC as markets cement their view of a June hike.

The debt limit deal passed a key hurdle yesterday, being approved by the House Rules Committee with a tight 7-6 margin. The deal is expected to be voted on by the House today. While the committee hurdle was a key procedural passage to be cleared and both parties claim they have the numbers to get the deal approved by Congress, the very tiny margin may be keeping markets a bit jittery for a few more days.

This may be contributing to keeping the dollar in demand this morning, although the risk-off sentiment seems to be primarily driven by disappointing manufacturing PMIs out of China, as the official survey showed a drop to 48.8 (contractionary territory), the lowest since December 2022. Chinese growth sentiment remains a key channel to a rotation from the dollar to European currencies, and the recent cooling off of the Chinese recovery narrative is contributing to delaying such rotation. When combined with the ongoing hawkish repricing of Fed hawkish expectations, we think the dollar can hold on to gains for the time being.

Elsewhere, AUD and NZD are the most exposed currencies in G10 to poor Chinese data. The latter is the worst-performing currency this morning and surely cannot count on any domestic support after the big Reserve Bank of New Zealand dovish surprise last week. It's worth keeping an eye on CoreLogic house price data today, to gauge whether the property slump has accelerated further in New Zealand. In Australia, April inflation numbers (6.8% year-on-year) surprised on the upside, revamping some Reserve Bank of Australia rate hike expectations, and partly shielding AUD from the Chinese data hit. RBA Governor Philip Lowe stressed in a testimony overnight that the Bank is fully data dependent.

Francesco Pesole

⬇️ EUR: Hard to push ECB rate expectations much higher

Grim data out of China are not helping EUR/USD get out of its bearish trap, and the pair is back below 1.0700 after a very short-lived rebound. Domestically, inflation figures in the eurozone are very important to watch from an ECB perspective.

Yesterday, [Spanish CPI](#) slowed more than expected, from 4.1% to 3.2%, with core inflation also declining (to 6.1%) for a third consecutive month. French and German figures are released today, and a broad-based deceleration in inflation is also expected, while eurozone-wide data are published tomorrow.

One issue that the euro is facing at the moment is that markets are fully pricing in two more ECB rate hikes by September, and it would probably take a rather substantial upward surprise in inflation figures to push hawkish expectations beyond that point. If anything, risks appear skewed towards some dovish repricing – and a negative euro impact – today should France and Germany follow Spain in showing a faster-than-expected slowdown in inflation. At this stage, and given ongoing USD strength, EUR/USD may soon test 1.0600.

Francesco Pesole

⬇️ SEK: Hard to halt the freefall

EUR/SEK continues to move higher. The pair briefly traded above the highest close price recorded (11.68), although the highest intraday level recorded was 11.79 (on 6 March 2009). The latest

comments by Riksbank members suggest that the Bank is looking at the exchange rate with quite some concern, but – [as we reiterated recently](#) – there are limited tools at its disposal after the dovish turn at the April meeting. One Riksbank member, Per Jansson, seemed to rule out FX intervention, while one of the dissenting doves, Anna Breman, suggested more aggressive quantitative tightening (which in our view would prove insufficient to support SEK).

The risk-off wave coming from China puts European currencies in a vulnerable position and SEK remains the favourite short in the region given the Riksbank's unsupportive narrative and other domestic issues. Among those, Swedish landlord SBB's debt was downgraded by a second rating agency to junk late last week and is reportedly considering a breakup to maximise shareholder value. The firm is at the epicentre of the Swedish property crisis and we suspect it is contributing to building some risk premium related to real estate distress into SEK.

It's hard to put a limit to the rally in EUR/SEK at this stage. Another acceleration in the unsupportive environment for high-beta currencies could easily see the pair trade around 11.70-11.85 before the end of the week. We'll need to see whether the Riksbank will step in with some threats of FX intervention at one point, although the latest comments did not point in that direction.

Francesco Pesole

PLN: Drop in inflation as trigger for sell-off

May inflation figures for Poland will be published today. As usual, this is the first May inflation figure for the CEE region. Our team in Warsaw expects a significant drop in the headline from 14.7% to 13.0% YoY, below market expectations mainly due to a drop in food and energy prices. Today will also see the release of the first quarter GDP detail, which surprised to the upside in the flash print.

Financial markets are pricing in almost two 25bp rate cuts this year at the moment and such a drop in inflation would push the market to price in more monetary easing for this year, in our view. The interest rate differential has proven to be a good leading indicator for the Polish zloty in recent weeks and therefore we remain bearish on FX. Moreover, the heavy long positioning of the market is playing against the zloty and so the EUR/PLN move higher today should not be a surprise and the 4.550 level should be the next move.

Frantisek Taborsky

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

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

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 <http://www.ing.com>.