

FX Daily: All about the ECB this week

In what is generally a calm week on the global data front, all the focus will be on the July ECB meeting on Thursday. While a possible shift towards a dovish bias should be negative for the euro, the cautious ECB would provide a helping hand to higher beta cyclical currencies. We don't see the dollar extending its recent good broad-based momentum next week



➔ USD: The dollar momentum not to be extended

Although the cautious tone by Fed Chair Jerome Powell about the risks of persistent inflation and the need to taper asset purchases was not enough to trigger a sustained recovery in risk sentiment late last week, we look for a limited upside to trade weighed dollar this week. Not only it is a fairly calm week on the US data front (suggesting limited catalysts for a domestically driven USD rally), but the possibly cautious/dovish ECB on Thursday can provide a boost to cyclical FX, which would also spill over into the USD crosses (though EUR/USD would still decline).

We do not see the dollar extending its good momentum into the coming months, meaning that pro-cyclical currencies can still profit from the global reflation story and those backed by hawkish central banks from the search for carry (CAD, NZD, NOK in G10, BRL, MXN and RUB in EM).

⬇ EUR: All eyes on the ECB

The main event of the week is the [July ECB meeting](#) on Thursday.

Following the ECB strategic review and the shift in the inflation target from 'below, but close to 2%' to '2%' with a commitment to symmetry, the new strategy can be interpreted as either a formalisation of what it has been doing over the last few years anyway or a step towards more dovishness, as 2% implies a more resolute effort. This means the distribution of probabilities is skewed to lower EUR/USD this week.

No change in the ECB bias is unlikely to be enough to send the euro higher. At the same time, any ECB shift towards the dovish interpretation of the strategic review would underscore the recent downward EUR/USD trend.

⬇ GBP: A dovish ECB to impact GBP/USD

On the domestic UK data front, the focus will be on June retail sales and July PMI manufacturing and services (both on Friday). We expect EUR/GBP to remain range-bound in the 0.85-0.86 area, but the downside risks to EUR/USD stemming from the ECB July meeting this week suggests a lower GBP/USD.

The 200-day moving average of GBP/USD 1.3690 is a key support level to watch.

➡ NOK: Weighed down by low liquidity

The NOK underperformance over the past three weeks was caused by the mix of external factors and low liquidity during the summer months, to which NOK is particularly susceptible given that it is the least liquid currency in the G10 FX space.

With the risk sentiment expected to stabilise this week and the NOK underperformance being already meaningful, we expect EUR/NOK to stabilise and head back towards the 10.30 level this week

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

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

chris.turner@ing.com

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