

FX Daily: All eyes on Sintra

The European Central Bank's Sintra forum today sees the introductory speech and press conference by Christine Lagarde, before other central bankers (Powell, Bailey) speak tomorrow. With markets pricing in 150bp of ECB tightening by year-end, the bar for a hawkish surprise is set quite high. In the US, consumer confidence data will be in focus



Christine Lagarde,
president of the
European Central Bank

➔ USD: Commodity currencies can extend recovery

Friday's good momentum in equities only extended to the first part of yesterday's session, as another bad day for global bonds prompted early gains to be erased. This morning, equity futures mostly point to a flat or slightly negative open, as markets continue to gauge the risk of recession and the consequent impact for rates and global monetary conditions.

Interestingly, the FX market saw a reversal of the "sell-Europe" dynamic observed last week after the release of the June PMIs, as European currencies, led by the Scandies, started the week on a strong footing. A couple of days without major losses in global equities also allowed Norway's krone and Canada's dollar - the two currencies with the most attractive set of fundamentals given their commodity exposure - to regain some ground. These dynamics endorse our view that most near-term FX moves remain strictly tied to global equity swings. But periods of relative stabilisation in sentiment should allow CAD and NOK to emerge as key outperformers as they re-connect with

their commodity and rates drivers.

Today's calendar in the US includes the release of the Conference Board's Consumer Confidence index, which has steadily fallen in the past year and offers a gauge of how rising inflation expectations are starting to negatively impact household spending. The consensus is looking for another sharp drop in the index today. On the central banks' side, markets are awaiting tomorrow's speech by Fed Chair Jerome Powell at the Sintra forum. Today, Mary Daly is the only scheduled Fed speaker.

Let's see if some grim consumer confidence data today triggers another "[bad news is good news](#)" reaction from equities. A deteriorating economic outlook which suggests less need for aggressive monetary policy action could allow markets to stabilise. This could generate some moderate dollar weakness, especially against the pro-cyclical/commodity currencies, although any USD correction will likely prove temporary for now given the still broadly supportive underlying narrative of Fed tightening.

➔ EUR: A high bar for hawkish surprises in Sintra

ECB President Christine Lagarde is set to deliver the introductory speech at the Sintra forum this morning, and she will be followed by Chief Economist Philip Lane before attending a press conference in the early afternoon. She will also deliver speeches tomorrow.

Expect most of the discussion in Sintra to centre around the risks to the economic outlook and how those can impact monetary policy decisions. Indeed, Lagarde is expected to provide some colour on how seriously the ECB is considering a 50bp rate hike in September in light of recent activity surveys pointing to a rapidly deteriorating picture for the eurozone. Also, more details of the anti-fragmentation tools discussed earlier this month will likely be addressed.

A look at rate expectations embedded in the swaps market – 150bp of tightening fully in the price by year-end – suggests that the bar for a hawkish surprise is likely set quite high, and we doubt that Sintra will be the catalyst for a significant break higher in EUR/USD. Still, a softer dollar environment could help, and stabilisation in the 1.0600–1.0650 range is possible this week, even though we see a return to 1.0500 in the remainder of 3Q as more likely.

➔ GBP: Still no impact from Brexit headlines

The pound continues to be rather unreactive to Brexit-related news. The UK government proposed a bill to unilaterally scrap part of the Northern Ireland protocol yesterday, which will now need to be voted on. There are surely many indications that the pound is largely pricing in this scenario, and markets remain mostly focused on other drivers of UK economic underperformance as well as assuming Brexit is not a major input in the BoE's policy decision-making process at the moment.

The re-pricing lower in BoE's rate expectations, which are part of a global trend, has helped the pound remain well clear of 1.2000 for now. Tomorrow's speech by BoE Governor Andrew Bailey in Sintra will be the main event of the week. A broadly hawkish message could further help the pound stabilise and possibly drag EUR/GBP back below 0.8600.

➔ HUF: Bar for reversal of negative sentiment too high

The main event this week in the Central and Eastern Europe region is today's meeting of the

Hungarian Central Bank. ING's Peter Virovacz [expects at least 50bp hike](#) in the base rate to 6.00% and a 30bp hike in the deposit rate to 6.75%. However, the key question is how much the MPC will assess the current level of the forint and the pressure for further depreciation above the 400 EUR/HUF level. Although the central bank has previously shown a quick reaction to current market developments, the last meeting showed a more autopilot approach. Thus, it is the weaker forint that could push the central bank to take a bolder step.

On the other hand, the bar is too high, in our view, for the NBH to surprise the market enough to turn around the negative market sentiment. Overall, we thus do not expect much from the forint today. At best, we expect a return to 395. One could say that the limit for further forint weakness is unlimited but we believe that a lot of negative news is already priced in and short positioning should not allow another strong sell-off.

In the long run, not much has changed in our view. The forint continues to be our least favourite currency in the CEE region, but we continue to watch headlines signalling a turnaround in the Rule of Law and EU funds disputes that should unlock the hidden potential of the forint in the second half of the year (perhaps in September).

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