

## FX Daily: Barely a ripple from Biden's withdrawal

President Biden's announcement that he will not be standing in November's election has caused barely a ripple in financial markets. At the margin, US yields and the dollar opened fractionally weaker in Asia, but it looks as though investors had been expecting it. This week's focus is on 'goldilocks' US data, plus rate meetings in Canada, Hungary & Turkey



This week starts with the news of President Joe Biden's decision to withdraw from the US presidential race, endorsing Vice President Kamala Harris as his successor

### USD: Looking for some 'goldilocks' data

As we mentioned Friday, it looked like investors had already started to price President Joe Biden's withdrawal from November's race. The DXY dollar index opened in Asia today about 0.1% lower on the news, but quickly edged higher, as did US yields. Investors will now switch their attention to how Kamala Harris fares against Donald Trump in the opinion polls – assuming she is appointed the presidential candidate at the Democratic National Convention on 19-22 August.

On the subject of politics, it looks like the US data this week could actually be good news for the Democrats. Second quarter US GDP on Thursday is expected to bounce back above 2% quarter-on-quarter annualised, while Friday's release of June's core PCE inflation data should see the Federal

Reserve's preferred gauge of inflation coming in on target at 0.2% month-on-month. This set of releases looks unlikely to move the needle on the pricing of Fed cuts this year, where the market currently expects a 57bp reduction. We doubt consensus releases here have to send the dollar much lower, and instead, they will probably cement the low volatility environment currently in place in FX markets.

On the topic of rate cuts, however, today has seen [China cut rates](#) and Wednesday should see the Bank of Canada (BoC) cut rates [for a second time](#). China's clear bias for more stimulative policy is keeping the entire Asian FX complex on the back foot, while USD/CAD continues to trade near the top of this year's range as higher unemployment hurries the BoC into reducing its restrictive monetary settings. This is making a difficult FX environment for the second half, where the start of the Fed easing cycle later this year does not mean a weaker dollar for all.

In addition, this week sees \$183bn of two, five and seven-year US Treasury notes being auctioned. A US fiscal crisis is one of investors' top fears over the next 18 months, and auction results will therefore be scrutinised this week.

On a quiet day for data, we think the market will be focusing on whether USD/CNH trades above 7.30 again, and DXY could edge up to the 104.55/85 area.

*Chris Turner*

## ➔ EUR: Bracing for more soft PMIs this week

One of the standouts from [last week's largely uneventful European Central Bank meeting](#) was the ECB's switch to highlighting downside risks to economic growth. This week's eurozone business sentiment readings, due Wednesday and Thursday, will help shape the narrative that policy is too restrictive and could prompt a little downside for the euro.

However, EUR/USD traded volatility remains exceptionally low and any EUR/USD weakness this week may be limited to the 1.0800, if not the 1.0840 area.

*Chris Turner*

## ➔ GBP: Barely 3% away from pre-Brexit vote levels

The Bank of England's broad trade-weighted sterling index is now barely 3% away from the levels traded in June 2016, before the Brexit vote. Some are no doubt making the case that this is a removal of the Brexit risk premium in sterling, aided by new Prime Minister Keir Starmer's desire to engage more closely with Europe. While we have some sympathy with that view, we ascribe sterling strength more to sticky UK inflation and the limited pricing of BoE rate cuts this year, plus July's drop in the dollar on the back of softer US price data.

According to our medium-term fair value models, we see GBP/USD as fairly priced (i.e., not significantly undervalued) and we see fund managers reaching the same conclusions in buy-side investor surveys too.

We are still officially looking for three BoE rate cuts this year (versus two currently priced) and when the UK data allows it, we think sterling will come lower. The 1 August MPC rate meeting will also be the first big opportunity since the UK election to hear what the BoE are really thinking. We see this as a downside risk to sterling too.

Chris Turner

## ➔ CEE: Central banks driving FX this week

Apart from Tuesday's central bank meetings, this week should be rather quiet again in Central and Eastern Europe. Retail sales and construction in Poland are on the calendar today. Industrial numbers [surprised](#) to the upside last week. Our economists expect retail sales to be similar, with the market up 5.1% year-on-year. Overall, the economic recovery in the second quarter (our estimate is for 3% YoY vs 2% in the first quarter) seems to continue and we maintain our view of full-year growth at 3%.

On Tuesday, we will see rate decisions in Hungary and Turkey. So far, we can't expect any surprises from the Central bank of Turkey. We see the CBT keeping rates unchanged at 50% and maintaining a tightening bias, but over in Hungary, it's going to be a close call. Our economists expect the National Bank of Hungary [to keep rates unchanged](#) – but as discussed in their preview, surprising downside inflation, the strong HUF, and a more dovish global story could tempt the NBH into continuing rate cuts. This is also the reason for our NBH rate path revision, and now we see two 25bp cuts this year. However, market pricing and surveys still indicate a close call, with a bias towards a rate cut this week.

On Wednesday, we will see consumer confidence in the Czech Republic and wages in Hungary. We could also see a few political headlines from Hungary this week given the several informal EU ministers' meetings under the Hungarian presidency, including the PM's speech on Friday. In the Czech Republic, the blackout period will begin on Thursday ahead of the August Czech National Bank meeting. We should therefore see most statements from central bankers in the short term, which we believe will indicate a slowdown in the pace of rate cuts. Our team here expects a 25bp rate in August with a 4.00% year end rate.

As we mentioned last week, EUR/HUF is waiting for the NBH decision, but the rate differential has been pointing to a weaker HUF for some time. In both scenarios, we expect dovish NBH rhetoric and therefore see a weaker HUF regardless of the decision this week. On the other hand, EUR/CZK has been showing an extremely strong relationship with rates for the past weeks, and if we see hawkish statements from the CNB, a CZK rally will surely follow. We already saw CZK bounce last week, and we should see more of this in the next two weeks with the potential for a return to below 25.00.

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