

## FX Daily: BoJ hike doesn't rock the market

The Bank of Japan hiked rates by 15bp and cut bond purchases, but the yen looks unfazed. We are awaiting FX intervention data later today. Even if USD/JPY remains supported by speculative longs, the picture is turning structurally more favourable for JPY. Expect dovish hints by the FOMC today, and potentially a eurozone CPI surprise to support EUR/USD



The Bank of Japan in Tokyo

### ⬇️ USD: FOMC to drop dovish hints

The impact of the Bank of Japan surprise hike (more in the JPY section below) was very short-lived in the FX market. We still have to hear from the BoJ governor and see the amount of Japan's FX intervention before we can turn our focus on the FOMC announcement this evening (1900 BST).

Rates will be kept on hold today, but there isn't a clear consensus view on how much Chair Jerome Powell will give away in terms of guidance. As per our [FOMC preview](#), policymakers could take inspiration from 2019 to lay the groundwork for a September cut. In preparation for a July cut, the June 2019 FOMC statement acknowledged strong economic performance (the same as now), and pledged to act as appropriate to "sustain the expansion". Surely, Powell will reiterate a cautious tone on inflation this time, but he has often been the voice of a more dovish faction of the FOMC and the press conference could generate some USD-negative headlines.

Our view is that the Fed wants to avoid an unnecessary economic hit, and the loosening jobs market paired with positive disinflation news should be enough for a September cut. Markets agree and are fully pricing in 25bp of easing in September. The question is whether the Fed will want to use this meeting to prepare markets for a move at the next meeting. Our base case is that they will - to a certain extent - but probably won't offer the kind of clear guidance that would cause a big dollar drop.

At the same time, we would not be interpreting slightly more hawkish than expected language today as a clear sign that September should be ruled out: we believe markets will also be reluctant to price that out. The greenback is looking at some downside risks today, but Friday's payrolls release could be a bigger event for the FX market.

One major development in G10 overnight was the release of Australia's June/2Q CPI figures. As our colleague Rob Carnell discusses [here](#), the headline 2Q print was in line with expectations at 3.8% (a 0.2% acceleration from 1Q), but there was some tentatively encouraging news in the two core measures. The trimmed mean CPI decelerated slightly from 4.0% to 3.9% and the weighted median from 4.4% to 4.1%, both below consensus.

These core figures might be enough to lead the Reserve Bank of Australia to a more cautious approach and keep rates on hold next week. However, we think data continues to suggest disinflation is too slow, and we narrowly favour a 25bp hike at the 6 August meeting. AUD is trading lower today but is looking at decent upside potential, in our view.

*Francesco Pesole*

## 📈 EUR: Watch for CPI surprise

The eurozone reported a slightly stronger than expected, albeit tepid, 0.8% year-on-year 2Q growth rate yesterday. What matters for the euro will, however, be the July CPI flash estimates released today. Preliminary country data have not been encouraging for ECB doves: Germany reported a surprise small acceleration from 2.2% to 2.3% in [headline CPI](#), just as GDP data showed the economy fell back into [contraction](#) last quarter.

We had noted at the start of this week how the eurozone core preliminary CPI has beaten consensus in five of the seven releases this year. Today, the consensus estimate for a slowdown from 2.9% to 2.8% in core inflation may also prove too low.

It will certainly take more than a marginal inflation surprise to lead markets to price in less than two ECB cuts by year-end, but today's numbers may well help EUR/USD reinforce the 1.0800 support into the Fed risk event this evening. We expect at least a return to the upper half of the 1.08-1.09 range by the weekend on the back of the Fed payrolls effect.

*Francesco Pesole*

## ➡ JPY: BoJ surprise hike doesn't cause JPY rally

The Bank of Japan raised interest rates to 0.25% today, in line with our call but against consensus and market pricing. The BoJ also announced bond purchases will be nearly halved to around JPY 3tn by 1Q26. We are awaiting Governor Kazuo Ueda's press conference this morning but the rate hike does mark a substantial shift in policy where policymakers are putting greater emphasis on the longer-term inflation projections, which are now seen above 2.0% in the 2025 financial year.

The statement also stressed the inflationary risks of higher import prices, where the impact of a weak currency is greater. This surprise hike does fall into a generalised (perhaps coordinated) effort to stabilise the yen, in our view. USD/JPY swung after the release, and an attempted break lower was halted around the 151.6 200-day moving average support. The pair quickly bounced back and currently trades at 153.0, marginally above the pre-announcement levels.

The lack of a post-announcement JPY rally must be associated with some lingering structural positioning in the yen, as speculators might have seen the rate hike as a near-term peak for the yen, and as an opportunity to re-enter carry-attractive trades below 152. Incidentally, consensus was probably in favour of a larger decrease in bond purchases, which have a bigger say on how far JGB yields can rise. Finally, growth concerns ([industrial production](#) fell in June) are probably contributing to keeping hawkish bets capped. Market pricing for year-end is +14bp.

That said, we cannot deny this is a major development for the yen, and one that can structurally change the picture of carry-trade positioning, especially if the BoJ remains hawkish and hikes by another 25bp by the end of the year. Beyond the short-term, JPY looks on more solid ground, although watch for some JPY selling later today once FX intervention figures are released by the Ministry of Finance: an elevated figure could ignite speculation that the intervention strategy is unsustainable. The US events (Fed today, payrolls on Friday) should determine the direction for USD/JPY near term, and we think that a retest of sub-152 levels remains possible.

*Francesco Pesole*

## ➔ CEE: Inflation print to show direction for the zloty

Yesterday's second quarter GDP data in the Czech Republic and especially [Hungary](#) surprised to the downside, raising concerns about the recovery within the CEE region. Our economists had earlier revised the full-year GDP forecast in the Czech Republic to 1.0%, the lowest in the market, and yesterday's numbers prompted a revision in Hungary from 2.2% to 1.5%.

Today, the inflation number for July in Poland will be released, as always the first in the CEE region. The main story here is the lifting of the government's cap on energy prices, which should lead to higher headline inflation. We expect a jump from 2.6% to 4.5% YoY, one-tenth above the market consensus. However, the range of estimates is between 3.9% and 5.0% YoY, indicating high market uncertainty about the impact of the change. A rebound in inflation would have taken place even without the change and we will also be watching core inflation. In both cases, we expect a rebound in the coming months.

The inflation number should indicate the market's next move. The National Bank of Poland is using the jump in inflation due to energy measures as the main reason for the hawkishness in recent months. Although PLN rates have rallied a lot in recent weeks, they have significantly underperformed CEE peers where central banks are cutting rates. The market at this point is pricing in the first rate cut for early next year, a few months earlier than our economists forecast, and roughly 150bp by the end of next year. In the event of a higher inflation print, we think the market would be tempted to pay rates and prefer the NBP story and rhetoric of no rate cuts for longer. On the FX side, we think PLN is currently on the weaker side and the current pricing already shows undervaluation. However, in the short term, the inflation print today will reveal the direction. Medium term, we remain positive on PLN.

*Frantisek Taborsky*

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