

## FX Daily: Cheaper gasoline should help US confidence and the dollar

Softer-than-expected US price data this week has lifted risk assets around the world, especially in the emerging market space. The highlight of today's relatively quiet session will be US August consumer sentiment data, which is expected to pick up after the big drop in gasoline prices. This should be good for US growth and the dollar



US gasoline has fallen from \$5/gallon to \$4 over the last month

### USD: Rising consumer confidence should be good news all round

Softer-than-expected US July price data this week (both CPI and PPI) have been good news for risk assets around the world. Investors have read it as reducing the Fed's urgency to tighten policy. That said, Fed rhetoric has been consistent all week. Namely, the policy rate is heading toward 3.25/3.50% later this year (roughly priced by the markets) and then possibly 4% next year (not priced).

The latest US consumer sentiment readings from the University of Michigan – out today – will feed into this story. [James Knightley looks for](#) an upside surprise in consumer sentiment after US

gasoline's fall to \$4 from \$5/gallon over the last month. We also get fresh inflation expectations data. Here the 5-10 year expectations peaked at 3.10% earlier this summer, were 2.9% in July and today are expected to fall to 2.8%.

How will markets read the data? A drop in inflation expectations may suggest the Fed can be more relaxed on inflation. But there are no signs of that coming through in its rhetoric. Instead, the bigger impact may be the bounce in consumer sentiment, reduced fears of a 2023 recession, and the pricing out of some of the 50bp of easing expected in 2H23. This should be a dollar-positive development.

As we discussed yesterday, we like the dollar against the low yielders (euro and yen), but feel that declining levels of volatility will see renewed interest in the carry trade. [Yesterday](#), we picked out long MXN/JPY as a pair that could rally in this environment. Mexico's central bank Banxico did hike 75bp yesterday to 8.50% and even though it omitted language talking about 'more forceful' rate hikes in the future, we think Banxico will match the Fed hike-for-hike. 6.80 remains our target for MXN/JPY.

Heavily weighted to the low yielders, DXY should be able to edge a little higher today. A break above 105.50 would go a long way to stabilising it after the heavy losses suffered on Wednesday's US CPI release.

*Chris Turner*

## ⬇️ EUR: Gas developments remain worrying

European industry must be watching with growing concern as European natural gas prices continue to edge higher. Higher costs are a given, but winter rationing probably remains the bigger threat. For FX markets, 2022 has been the year of watching terms of trade developments – the price of exports over imports. These have moved very negatively for the eurozone this year and delivered a negative income shock. This week's move in gas prices has sent eurozone terms of trade towards the worst levels of the year and is a clean euro negative.

Given that we are slightly bullish on the dollar today, we think that the recent EUR/USD correction has stalled in the 1.0350/0400 resistance area and would favour a move back to 1.0275 today.

Elsewhere, some softer-than-expected July Swedish CPI data released today may pour cold water on calls for a massive Riksbank rate hike in September. After a good run in July, we doubt the Swedish krona pushes on too much further against the euro.

*Chris Turner*

## ➡️ GBP: 2Q22 UK GDP data not quite as bad as expected

UK 2Q22 GDP data came in marginally better than expected, where the extra bank holiday in June did not have quite as large a negative impact as analysts thought. The data can probably keep expectations alive that the Bank of England (BoE) will hike 50bp on 15 September. And ever-rising expectations for how much higher the UK energy price cap will be adjusted (and what it means for the peak of UK inflation) will probably mean the BoE stays hawkish all year.

EUR/GBP is slightly stronger than we thought and could edge up to the 0.8485 area. But given the challenges faced on the continent, we would not chase EUR/GBP higher.

Chris Turner

## ➔ CEE: Hungary rating review tonight

In the Central and Eastern Europe (CEE) region, industrial production in Romania, the final estimate of inflation in Poland, Czech National Bank (CNB) minutes, and current account data across the region will close the busy calendar this week. The final CPI reading in Poland is unlikely to differ markedly from the [flash estimate](#) of 15.5% year-on-year. However, given that gas prices at the pump continued to decline in the final week of July, we do not rule out a downward revision to 15.4% YoY. In the long term, we expect the summer months to be marked by relatively stable, albeit very high, inflation. Inflationary pressure is projected to re-emerge with the beginning of the heating season in autumn and at the beginning of 2023 due to the upswing in regulated prices.

CNB minutes should reveal the details of the new board's discussion from the [last meeting](#) when the central bank left rates unchanged for the first time since May 2021. In addition to the minutes, the full forecast will be released, including alternative scenarios. Hungary's rating review by S&P will also be published later today. [We do not expect](#) a change in the rating outlook (BBB, stable), but a downgrade is in play, mainly due to energy dependence and uncertain access to EU money.

For today, we do not see many impulses from the regional calendar and the main issue remains the current level of EUR/USD, which is playing positively into the hands of the CEE currencies for now. We see the Polish zloty and Hungarian forint fairly priced, but it is hard to be bullish in this part of the region given the energy risks and the escalating conflict with the European Commission over access to EU money. The koruna shook off another batch of short positions yesterday and we believe EUR/CZK should gradually start to return to higher levels, given that with the region's most dovish central bank on its back, it is hard to find justification for the current EUR/CZK levels.

Frantisek Taborsky

### Authors

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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