

## FX Daily: Currencies gear up for another big week of central bank meetings

Having negotiated the hawkish set of Fed and ECB meetings last week, FX markets will this week brace for around 10 central bank policy decisions across the developed and emerging market space. Further rate hikes in the likes of the UK, Norway and Switzerland can hold the strong dollar in check, while a rate cut in Hungary should not hurt the forint too much



### ➔ USD: Rest of World hawkish push back keeps dollar in check

Looking at US rates and the exceptionally inverted US yield curve, one might assume that all the factors are in place for the dollar to remain strong. And looking at USD/JPY near 142, that would seem to be the case. Yet, last week's hawkish pushback from the European Central Bank and what should be a series of 25bp rate hikes in the UK, Norway, and Switzerland this week serve as a reminder that the Federal Reserve is not hiking in isolation.

On the subject of USD/JPY, the US Treasury late last week released its semi-annual FX report - a report established to monitor whether any trading partner was manipulating currency for trade gain. The report was borne out of a weak dollar environment and was an attempt to dissuade competitors - largely in Asia - from preventing their currencies to rally on the back of strong current account surpluses. Needless to say, the strong dollar last year did not allow any opportunities for trading partners to sell local currencies. Indeed many were buying local

currencies to mute the shock of imported energy prices.

And in our opinion, news that Japan has been removed from the US Treasury's Monitoring List has little bearing on whether the Japanese authorities will intervene to sell USD/JPY. That decision will be taken in Tokyo and probably means a repeat of dollar-selling intervention should USD/JPY get anywhere near 145.

While much of the focus will be on overseas rate meetings this week, the US calendar still sees important congressional testimony from Fed Chair Jerome Powell on Wednesday and Thursday. It looks too early for him to divert from the Fed's hawkish narrative and will keep the market biased (71% probability now priced) towards a 25bp Fed hike on 26 July.

DXY will probably continue to trade near 102.00 with a downside bias.

*Chris Turner*

## ➡ EUR: China misfire sees EUR/USD rally slow

EUR/USD failed to build on gains last Friday. That may be a function of today's Juneteenth US public holiday, but also because China failed to announce any new stimulus measures over the weekend. Here, investors seem a little disappointed that Friday's State Council meeting in China did not result in any fresh stimulus - hence the spike in USD/CNH back to 7.15 today. Chartists will be looking for this USD/CNH rally to stall at 7.15/16 - failure to do so could keep the dollar a little better bid and weigh on EUR/USD.

This week, the eurozone focus will be on whether the flash eurozone PMIs released on Friday show any signs of life. We will also hear from several ECB speakers this week - including the influential Isabel Schnabel at 1340CET today. Let's see what she has to say about the chances of rate hikes in both July and September.

If EUR/USD is to maintain last week's bullish momentum, short-term support levels at 1.0910/30 should hold. We continue to favour a near-term move to 1.1000/30 and probably higher as investors position for the second half dollar decline. Additionally, 25bp rate hikes in the UK, Norway and Switzerland should keep the European currency complex gently bid.

*Chris Turner*

## ➡ GBP: Steady into Wednesday's May CPI release

Sterling is holding onto recent gains and as our UK economist James Smith outlines in our [Bank of England preview](#), we doubt the BoE has sufficient ammunition (yet) to push back against the nearly five 25bp hikes expected before year-end. That suggests sterling can stay supported for the time being.

Technically, GBP/USD does look as though it can advance to the 1.30 area - though the macro catalyst for further gains appears unclear. Indeed, the UK press is really pushing the 'mortgage timebomb' story at present, but sterling probably does not correct lower until we see some softer price data - which may take a few months to come through.

EUR/GBP continues to trade offered. At least a hawkish ECB provides some pushback to the BoE pricing and we continue to forecast a higher EUR/GBP later this year - once the hot UK inflation

story cools. EUR/GBP may find support here at 0.8500/8550.

*Chris Turner*

## CEE: Good news for the region

This [week](#) will see several central bank meetings in the region. Tomorrow, the Hungarian National Bank will meet for its monetary policy decision. We [expect](#) another 100bp cut in the overnight deposit rate, as in May, from 17% to 16%, in line with expectations. The forward guidance and the tone will remain unchanged as well, in our view. This means that the approach remains cautious and gradual and the decisions ahead are still data- and sentiment-driven. On Wednesday, we will see the Czech National Bank meeting leaving rates unchanged. The main question here is what the vote split will be. In May, three of the seven members voted for a rate hike. Since then we have seen lower inflation and wage growth numbers, which could change the outcome of the vote, but we expect the CNB to continue its hawkish tone. We will also see industrial and labour market data from Poland on Wednesday. The Central Bank of Turkey is scheduled to meet on Thursday, the first since the appointment of new economic names. We expect a big jump in interest rates from 8% to 20% and see upside risks.

On the FX market, the higher EUR/USD is clearly good news for the CEE region, and on top of that market remains in a positive mood and the drop in gas prices, which jumped last week to the highest levels since April, should play into the hands of HUF and CZK. And we should see positive news for FX at the local level as well. Markets like the story of monetary policy normalisation in Hungary and we believe the market will take the opportunity of a weaker forint as an opportunity to build new HUF positions and benefit from the significant carry. Thus, we expect the forint to return to 370 EUR/HUF. In the Czech Republic, the market is currently pricing in a first rate cut as early as September. In our view, the CNB governor will try to postpone the dovish market pricing, which, together with global factors, should help the koruna back to stronger levels below 23.70 EUR/CZK.

*Frantisek Taborsky*

### Author

#### **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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