

FX Daily: Data-dependency and commodity-dependency

US data surprises generated USD strength yesterday and a return of a dynamic where low-yielding currencies underperform pro-cyclicals. We expect this to be the norm moving ahead, with commodity FX unlikely to be negatively affected by a well-telegraphed 500Mbbls/d OPEC+ hike today. Elsewhere, we expect the Riksbank to buck the hawkish global trend.



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➔ USD: Enjoying data-dependent rate expectations

The price action in FX yesterday denoted how markets are fully endorsing the Fed's data-dependent approach, as a strong read in June's ADP payrolls prompted a rally in the dollar despite the Dow and S&P500 closing in positive territory. The Asian session has been soft for equities, although futures point at a good open in European and US markets later today. Earlier this week, we had noted how the dollar's strength was seeing commodity currencies as biggest losers, but that we expected to see a re-alignment with the previous week's dynamics where low-yielding funding currencies such as JPY, CHF and EUR were the worst performers. With the exception of NOK, we are indeed seeing again the low-yielding segment being more vulnerable than

commodity currencies, and we would not be surprised if this is dynamic will repeat when it is positive US data surprise driving the market.

Commodities are indeed taking centre stage this week, with two main developments to follow: (a) the OPEC+ meeting that starts today, and (b) the rally in natural gas prices. On the first, markets appear fully positioned for a 500Mbbbls/d output increase in August, which is what our commodities team expect. Any hike below that amount or a delay to September (as reportedly requested by Kazakhstan) should benefit oil prices. Meanwhile natural gas is trading around 15-year highs, as heat waves in North America have pushed demand higher. Indeed, it appears to be a weather-related demand shock that may lose steam once heat waves end, but for now it might provide some help to the currencies of large natural gas exporters such as RUB, NOK, AUD and CAD.

All in all, we expect commodity currencies to benefit from these two threads today – as well as from some stabilization in risk sentiment – while funding currencies may bear the brunt of any more data-related dollar strength. The US calendar includes the ISM manufacturing index for June, that our economist expects to come in at 61.0 vs 61.2 last month and in line with consensus.

➔ EUR: Frozen ECB, frozen EUR

Eurozone inflation data this week confirmed that the ECB can continue to conduct its ultra-dovish monetary policy without feeling the heat of high inflation. As Christine Lagarde speaks today (she will be followed by Hernandez de Cos), any policy-related comments may well follow this narrative, therefore leaving the gap in rate expectations between the US and EZ free to widen further if US data continue to fuel speculation that the Fed's tightening cycle will start sooner than expected. It is hard to see EUR/USD stage a solid rebound in the short-term given such policy divergence.

⬆ GBP: Still unfussed by domestic woes

Sterling continues to show good resilience to the dollar's appreciating pressure compared to other G10 peers, with markets still reluctant to price in a risk premium related to the fast spreading of the Covid-19 Delta variant in the UK. A positive development (although widely expected) is the delay granted by the EU to the Northern Ireland meat ban. In a longer term perspective, however, with political divergences still quite evident, the risk of a re-escalation of trade tensions between the EU and UK appears all but likely, and sterling might then get caught in the cross-fire more than it did this time. Today's key event for GBP is the speech by BoE Governor Andrew Bailey, after the urge to respond to higher inflation with tightening by out-going hawk Andy Haldane yesterday left very little mark on the market.

⬇ SEK: Riskbank not affected by global hawkish trend

Despite a generalized tendency among central bankers to move towards a more hawkish tone, the Riksbank will, in our view, remain firmly on the dovish side as it announces monetary policy today. Indeed, the economic data-flow has been encouraging and we should see some upgrades to the inflation forecasts, but we do not expect any material hawkish tilt in the language or in the projected rate path. This might defy some hawkish expectation on the Riskbank and make SEK a key laggard in the G10 space today, while also looking set to receive less support in the longer-run compared those pro-cyclical currencies that are backed by a hawkish central bank.

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