

FX Daily: Dollar back to softest levels since March

Amid many cross-currents, the dollar has softened back to its weakest levels since March. That looks largely down to this month's 20bp drop in short-dated US rates, but perhaps also down to some confusion about what a possible Trump presidency means for the dollar. For today, the highlight should be the ECB meeting, which is seen as neutral for the euro



➔ USD: Many cross currents, but the dollar is lower

The DXY has fallen just over 2% this month and is now back to its lowest levels since March. Is that down to a powerful rebound in overseas economies sucking capital out of the US? The clear answer to that is no. The primary reason looks to be follow-through dollar selling on the back of the recent disinflationary US price data and the 20bp drop in US short-dated rates this month. On that subject, one of our preferred Fed communicators, Christopher Waller, delivered another very readable update yesterday. Entitled '[Getting closer](#)', his speech confirmed that softer US price data had put the Federal Reserve on the path back to rate cuts. Of the three scenarios he presented, he favoured a continued bumpy ride towards a rate cut and perhaps a reason why short-dated US yields did not take another leg lower yesterday.

Perhaps the biggest story this week, however, is what a Donald Trump presidency would mean for FX markets. The clear consensus here is that fiscal policy would be looser under a Trump administration, that the US yield curve should be steeper and that the dollar would likely strengthen. Yet the FX part is far from certain and has this week been clouded by former president Trump's interview with Bloomberg taking a potshot at the undervalued Japanese yen and Chinese yuan. The interview served as a reminder that the US Treasury under Trump's time in office branded China a currency manipulator, even though the formal criteria had not been fulfilled. This week's Bloomberg interview has therefore raised the prospect that a victory for Trump in November could re-introduce the wild card of weak dollar policy from the White House.

The macro story will probably be a bigger driver of FX in the near term, and today we just see second tier initial claim data. Interestingly, the Fed's Waller did see one scenario where unemployment could rise quite quickly now that the labour market is in balance, so any big jump in the claims data could hit the dollar. More likely, however, is that DXY remains soft in a 103.50-104.00 range.

Chris Turner

➔ EUR: ECB unlikely to drive markets

Today sees the last European Central Bank meeting before the summer break. Our team [concludes](#) that the ECB will probably be happy with current market pricing of further 25bp rate cuts in September and December and will prefer not to move the needle today. Please see our full scenario analysis [here](#).

EUR/USD is starting to show some resilience. This may also be down to creeping uncertainty in the market over what a possible Trump presidency could mean for the dollar after all. Macro will probably dominate, however, and here we do not see strong reasons to chase EUR/USD towards 1.10 yet.

Chris Turner

➔ JPY: Getting interesting

USD/JPY has been the surprise package this week, retracing down to the 155/156 area seen in early June. Lower short-dated US rates have clearly been a big driver of the move, but politics has been playing a role here too. Donald Trump's Bloomberg interview highlighted the undervalued yen pressuring the US manufacturing sector. And in Tokyo, political calls are growing louder that a weak yen has passed its sell-by date. As our FX Strategist Francesco Pesole [highlighted last week](#), investors' short yen for the carry trade also have to deal with more opportunist Japanese FX intervention.

Ultimately, we think the US macro/rates story will dominate and should lead USD/JPY lower later this year. We currently have a 153 end-year forecast here.

Chris Turner

⬆️ CEE: Dovish pricing hits a limit

In Poland, industrial production, labour market and PPI data for June will be published today. Industrial production remains weak in our view, but we should still see some improvement from

May. Wage growth, on the other hand, remains strong, still in double-digit territory with a possible upside surprise.

Rates markets saw some stabilisation yesterday, with a rebound in the Czech Republic and Hungary and still some decline in Poland. This was visibly reflected in the FX market with PLN underperforming its CEE peers. Dovish market pricing in the CZK has probably hit a bottom and we saw the first signs of a correction yesterday. We believe that the paying flow will continue, but the real trigger will probably be the Czech National Bank board members' comments next week. However, the relationship between rates and FX has been extremely strong in this market in recent weeks and higher rates would therefore imply a stronger CZK. We've seen EUR/CZK grind lower in recent days below 25.30, our previously mentioned level, and we see further potential for a CZK rally here – but the main part of the story is more likely to come in the next two weeks, with the CNB in the headlines more frequently.

EUR/PLN also moved in our direction, touching 4.300 yesterday. We believe the main reason is the rates rally and the closing of the gap from the previous days. However, long zloty is the most held position in the CEE market and it is hard to say if there is further potential for a sell-off. If PLN rates only lag behind CEE peers, we could see a reversal today and some players coming into the market just like in CZK and HUF yesterday. This should also support the currency. EUR/PLN could hit the upper limit at 4.30 and we can see the pair bouncing lower, but for now we don't have the same conviction here as in the case of CZK.

Frantisek Taborsky

Author

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.