FX Daily: Dollar bears still need data evidence

US markets reopen today and FX volatility should pick up again. The minutes from the June FOMC meeting will be in focus but we doubt markets will find much evidence to turn any less hawkish on Fed tightening, which will leave data releases the task of driving any substantial dollar move for now. Expect the NBR's hawkish tone to continue

USD: Back from holiday

Thinner volumes at the start of this week have coincided with some moderate support for commodity currencies in the G10 space. US markets re-open today and we expect some pick up in FX volatility, with both Fed communication and data coming into focus.

The minutes from the June FOMC meeting are the main highlight today. First of all, the minutes will shed some light on the compromise between keeping rates on hold but strongly signalling more hikes ahead. From a market perspective, it will be key to gauge where most of the committee sees core inflation dynamics going and the scope for further tightening. Markets will also be sensitive to any details about members' positions on rate cuts. We heard some strong pushback by Fed Chair Jerome Powell in the post-meeting press conference against cuts in 2024, but the dot plot projections show easing starting sometime next year.

Overall, the dot plot projections and the post-meeting Fed communication suggest that markets may not find many hints to recalibrate their tightening expectations lower today. If anything, the trigger for such a dynamic would be weak US data. Today, the calendar is not particularly heavy in the US: factory orders for May and the final print of durable goods orders. Tomorrow's ISM services and ADP employment figures are a bigger risk event for the dollar.

Francesco Pesole

EUR: Eyes on the doves

EUR/USD traded on the soft side yesterday, despite other pro-cyclical currencies finding some support. However, this appears to be mostly market noise and the pair may struggle to find clear direction before key US data are released later this week. Even then, our perception is that – barring major data surprises – the uncertainty surrounding a second hike by the Fed after July and the European Central Bank's hawkish message (which has offset weak eurozone data) can keep EUR/USD in a 1.08-1.10 range for longer.

Today, the eurozone calendar includes PPI numbers for May, some national industrial production data and final PMI readings for June. Those are normally non-market-moving releases. Some reaction could come from the consumer expectation survey, which includes inflation expectation figures. The focus will also be on ECB speakers: Joachim Nagel (who recently stuck to his hawkish rhetoric), plus some more dovish members (Ignazio Visco, Francois Villeroy de Galhau and Pablo Hernandez de Cos). Markets are pricing in 38bp of tightening by September and an alarming tone on core inflation from the doves might help markets fully price in that move.

Francesco Pesole

RON: Too early for a change of tone

Today, the highlight of the day will be the meeting of the National Bank of Romania. In line with the market, we expect no change in the interest rate, which currently sits at 7.00%. Headline inflation fell from 11.2% to 10.6% in May, the lowest figure in the CEE region. Despite disinflation, core inflation remains a concern for the central bank. It is therefore too early yet for the NBR to consider any rate cuts, and the main policy and market focus is on liquidity management in the market. The latter has been running record surpluses in recent months, leading to a fall in interbank market rates well below the monetary policy rate. We expect the NBR to maintain a hawkish tone and see the first rate cut only in January next year.

On the FX side, we saw the NBR let the leu weaken slightly above the EUR/RON 4.95 level and the playing field is currently 4.95-4.97. We expect to see a similar move once or twice more before the end of the year, which should take EUR/RON to 5.02 by the end of the year. Given the unclear timing, the spot market does not have much to offer. However, we believe this central bank approach will add pressure on the leu, which will be an opportunity for the NBR to withdraw excess liquidity from the market and push interbank rates and FX implied yields back up.

Frantisek Taborsky

PLN: Record strong zloty day before NBP decision

The two-day meeting of the National Bank of Poland starts today in Poland. While we can expect headlines tomorrow, the Polish zloty is once again clamouring for attention. EUR/PLN touched its lowest levels since early 2021 yesterday. We remain positive on the zloty, however, as we estimate that positioning must be extremely long at the moment –most significantly in the CEE region. Moreover, we can expect a dovish report from the NBP tomorrow.

The market has priced in a lot of rate cuts for this year over the past week without significant damage to the zloty. Thus, the current account surplus, strong FDI flows and the dampening of volatility through MinFin operations in the market will continue to support the zloty, but we expect further gains to be at a slower pace.

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