

## FX Daily: Dollar may be left wounded after equity stabilisation

Japanese equities are leading a potential global rebound this morning. That may lead to a stronger USD as markets price out some stock-induced Fed easing. But barring a US CPI surprise next week, the USD rate appeal appears compromised, and we expect a softer dollar against pro-cyclical FX after the dust has settled. The RBA keeps rates on hold



### 📈 USD: A short-lived rebound on the cards

Japanese stocks have rebounded some 7% after the recent collapse, and stock futures in Europe and the US are also pointing to a strong open later today. But yesterday's price action told us something interesting about the equity-FX link.

The key takeaway at this stage is that the dollar has lost its safe-haven appeal. That is because soft US data was behind the market turmoil, and investors are not reluctant to price in aggressive Fed easing as a reaction, which is a dollar negative and highly favours the other safe-havens JPY and CHF. The bet here was that Fed Chair Jerome Powell would react not just particularly to the

worsening macro picture, but to a greater extent to an equity selloff instead.

After all, Austan Goolsbee (a dovish-leaning FOMC member) said that the Fed won't overreact to one soft jobs print, the ISM service rebounded above 50 yesterday, and there are explicit concerns about the inflation trajectory at the Fed. All this may not be entirely consistent with the 111bp of easing priced into the USD curve by year-end. The question is perhaps whether Powell has a line in the sand for the stock market after which it would deliver an off-meeting rate cut. That is, however, an emergency measure that generally requires some concerns about financial stability, which looks premature.

We are not equity strategists, but risk assets are looking at the potential risk of the Fed underdelivering in terms of dovish communication. We also have the US CPI report next week, and any upside surprise can definitely ignite more risk-off as hopes of large cuts have to be scaled back. In that scenario, the dollar would regain safe-haven appeal, but for now, the greenback will retain a positive correlation to equities due to the Fed easing implications. The US calendar is empty today, but early signs of stocks rebounding mean some upside risks for the greenback in particular against JPY and CHF, as some Fed easing is scaled back.

Still, once stock markets ultimately stabilise – and barring an inflation surprise next week – the dollar should head lower, in our view. The repricing lower in the Fed terminal rate now means that the dollar's rate advantage has been trimmed and there is room for pro-cyclical currencies to readjust higher versus USD on the back of more favourable rate differentials.

Francesco Pesole

## 📉 EUR: A move above 1.10 remains possible beyond this week

EUR/USD briefly printed above 1.10 yesterday on the back of the huge Fed easing repricing. As mentioned above, the dollar may recover a bit more ground today, and we could see EUR/USD slip back to the 1.090 mark.

The 2-year EUR:USD swap rate differential is now -100bp after having touched -71bp yesterday. This is huge volatility, but also follows a tightening trend in the spread that started in April (when it was at -160bp). Our short-term models indicate EUR/USD should be trading above 1.10 even if that spread rewidens by another 20bp in favour of the dollar.

In the rest of Europe, NOK should lead the pack in an equity rebound after taking the hit yesterday due to its low liquidity character. We would expect SEK to lag NOK due to lower beta-to-risk sentiment and speculation on a 50bp cut by the Riksbank on 20 August.

Francesco Pesole

## ➡ AUD: Hawkish hold by the RBA

The Reserve Bank of Australia kept rates on hold this morning, as widely anticipated. The statement, economic projections, and press conference all pointed to a hawkish stance given sticky inflation. The RBA now expects core inflation to stay above 3% for most of next year and only reach the 2.5% target in 2026, and it is not ruling anything in or out in terms of policy decisions.

Governor Michele Bullock said that pricing a rate cut in the next six months does not align with the

board's thinking, effectively and explicitly pushing back against current bets for 25bp currently in the curve. She also insisted in the RBA's independence from any easing pressure coming from peer central banks.

All in all, the RBA did not sound worried enough about inflation to suggest another rate hike is on its way, but equally seemed quite uncomfortable with dovish market pricing and probably the big rally in AUD bonds. We are seeing the Aussie dollar doing well against G10 peers this morning, in line with our call. Indeed, a rebounding USD can curb an AUD/USD rally in the very near term, but we expect Bullock's hawkish statement to set the base for an AUD/USD rally once equity volatility abates. A return to 0.67+ remains possible before the US election.

## ➔ CEE: Local rates have no chance to find a firm footing

Our CEE region currency preference yesterday held up in the current messy conditions, and we want to keep it that way, being bullish on CZK, neutral on HUF and bearish on PLN. However, yesterday's reversal of core rates at the end of the day brings rather more uncertainty to the CEE market, given that local rates don't have much chance to find solid ground. But if anything, we see PLN rates reacting most to the core move, leading to further narrowing of the rate differential. This should keep PLN under pressure, which is also weighed down by the most long positioning within the CEE region.

Moreover, we have no data in Poland this week and we also don't have an NBP meeting this month, and that's mostly supportive of PLN. On the other hand, EUR/CZK touched 25.250 yesterday and CZK shows the most resistance to the global move. This morning we will see retail sales data in Hungary and industrial production in the Czech Republic, but the focus will still be on the global story that dominates the markets. The positive here, though, is a higher EUR/USD, which should keep the CEE region at safer limits overall and prevent a bigger sell-off.

Frantisek Taborsky

### Authors

#### Francesco Pesole

FX Strategist

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

#### Frantisek Taborsky

EMEA FX & FI Strategist

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

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@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 <http://www.ing.com>.