

FX Daily: Dollar remains vulnerable as equities stabilise

US and in particular European equities aren't rebounding as fast as Japanese stocks, but global risk sentiment is indeed stabilising, which leaves room in FX to realign with the changes in rate spreads. The dollar is in a substantially weaker position than 10 days ago and is looking at an imminent decline against pro-cyclical currencies, in our view



⬇️ USD: Softer rate position

Japanese equities continued to rebound this morning and futures are pointing to a positive open in US and European equities, with the latter having been a laggard in the recovery so far. From a purely macro angle, we remain cautious about big risk-on rallies before the key US CPI risk event (next Wednesday) is cleared. That said, a stabilisation after the big correction around the weekend should be enough for most FX pairs to start reconnecting with rate spreads and fundamentals.

From this perspective, the dollar looks vulnerable. We believe markets may be reluctant to take the year-end Fed policy rate much above 4.50%; that's because 100bp of easing is probably linked to US macro, with anything extra (which has now been priced out) linked to expectations for some sort of intervention by the Fed to help the stock market.

That means the rebound in USD 2-year OIS rates to 3.75-80% may struggle to find much more

momentum, and the dollar may be left with a short-term rate advantage around 40bp lower compared to just 10 days ago. We expect this will drive the dollar lower against most pro-cyclical currencies amid a potential further stabilisation in risk sentiment and a lack of market-moving data this week.

The safe-haven Japanese yen and Swiss franc probably remain a bit vulnerable in the near term. It is now widely believed most JPY speculative shorts have been trimmed, and we wouldn't exclude the net positioning in USD/JPY may now be close to flat. That places the yen in a position to trade more on rates and global risk sentiment, and Bank of Japan Deputy Governor Shinichi Uchida's pledge not to hike rates if markets are unstable paves the way for more JPY weakness into next week's US CPI. We cannot exclude that USD/JPY tests the 150 mark before mid-next week.

Francesco Pesole

📈 EUR: Set for a move to 1.10

The rebound in the EUR:USD 2-year swap spread may stall around -100bp. That would be entirely consistent with EUR/USD trading above 1.10 even when factoring in the softer risk sentiment (as measured by global stocks performance).

As discussed in the USD section above, markets may not take the hawkish re-adjustment in Fed expectations much further, while the same cannot be said about ECB pricing. The EUR OIS curve currently embeds 69bp of easing, which is largely a spillover from Fed pricing, as the latest inflation figures in the eurozone pointed to risks that the ECB may skip a cut in September. Risks are undoubtedly skewed to 50bp as opposed to 75bp by the ECB in the three meetings until year-end. We expect EUR/USD to test 1.10 before the US CPI event next week.

We incidentally favour a continuation of the rebound in Norway's krone and Sweden's krona among other high-beta currencies. NOK has particularly taken a major hit from the equity selloff and has plenty of room to recover ahead of a Norges Bank meeting next week which may well fail to endorse the market's dovish bets as policymakers may well focus on helping the battered currency.

Francesco Pesole

📈 NZD: RBNZ cut not guaranteed

New Zealand released jobs figures overnight, and the results were not as grim as consensus expected. Unemployment rose less than projected from a revised 4.4% to 4.6% in 2Q, thanks to a surprising rise in both employment and the participation rate. Private wages also rose marginally to 0.9% quarter-on-quarter.

The Kiwi dollar is the best-performing G10 currency this morning on the back of those figures, as markets trimmed bets on a rate cut next week, which was almost fully priced in and has a 50% implied probability.

We are now inclined to call for a hold by the Reserve Bank of New Zealand next week. The dovish repricing in the NZD curve is more a consequence of Fed rate expectations as the RBNZ dovish tilt and inflation/jobs data do not justify the 84bp of easing priced in by year-end. We suspect the RBNZ may want to wait for the Fed to move first, and if anything deliver a 50bp cut at the October meeting. That said, next week looks close to a 50/50 call, and we think the meeting is accurately

priced by the market.

Either way, we remain bullish on NZD/USD on the back of a significantly improved rate differential and stabilisation in risk sentiment which should unlock upside into 0.61+ in the pair after the recent break above 0.60.

Francesco Pesole

➔ RON: Limited impact from the NBR decision on markets

Today's main event in the CEE region is the meeting of the National Bank of Romania. Our economists are forecasting rates unchanged at 6.75% (effective rate at 5.75%) in line with market expectations, but surveys are not uniform and as we discuss in our [NBR preview](#), rate cuts may be discussed today as well. The NBR began its latest cutting cycle as the last one in the CEE region in July. In the baseline scenario, we expect a second rate cut in November, the last of the year. The central bank will also have a new forecast today that is likely to show lower inflation.

From a market perspective, EUR/RON remains in a narrow range of 4.966-4.977 and the central bank meeting won't change that today or later this year. In the Romanian government bond (ROMGB) world, we see only limited impact from today's decision. FX implied yields show that markets are largely expecting a rate cut today. On the other hand, as we discuss in the NBR preview, the ROMGB market is more likely to follow fiscal policy and high issuance today, where we want to see more progress before turning more positive on ROMGBs. This is also reflected in spread widening vs CEE peers in recent months.

Frantisek Taborsky

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

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

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>.