

## FX Daily: Dovish cut from RBNZ shows importance of spare capacity

In a quiet week for FX markets, the dovish rate cut from the Reserve Bank of New Zealand overnight shows the importance of spare capacity in the economy as the central bank looks through a short-term rise in inflation. It looks like it's going to be a quiet day in G10 FX, although sterling and the Swedish krona will be reacting to CPI and the Riksbank



The Reserve Bank of New Zealand building in Wellington

### ➔ USD: Quiet consolidation

The dollar has quietly gone a little bid this week. We're not sure what's driving it, but we wouldn't read too much into it at this stage. Perhaps it's just that sitting short dollars is expensive with one-week dollar rates still well above 4.00%. There hasn't really been that much progress on Ukraine this week, despite European leaders hailing a 'breakthrough'. Let's see whether any more details emerge about the level of support the US is prepared to offer Europe in defending Ukraine, and also whether President Putin is prepared to accept European boots on the ground in Ukraine – the threat of which (under NATO) prompted Russia to invade Ukraine in the first place. EUR/CHF is trading lower in a slightly disappointed fashion over progress on a ceasefire/peace, but CEE FX seems happy to hold onto gains.

In terms of the calendar today, we have prospective Fed Chair front-runner Christopher Waller speaking at 17CET, though the subject here is payments. More interesting will be the FOMC minutes released at 20CET, which will air more of the views of the two dissenters (Waller and Bowman) who voted for a rate cut in July. Market moves, however, may be limited given that the July jobs report was released a few days later. A much better read on the Fed situation should emerge on Friday afternoon during Chair Powell's speech at Jackson Hole. In all, we don't see the need for big DXY moves today and struggle to see it breaking above 98.50/60 resistance.

Where there have been big moves, however, is in New Zealand. While delivering the much-anticipated 25bp cut to 3.00%, [the RBNZ seriously debated a 50bp cut](#) – for which two of the six committee members voted. NZD/USD fell 1.1% and the terminal rate for the easing cycle was marked some 20bp lower, close to 2.50%. Despite acknowledging that CPI would increase to and possibly breach the top of its 1-3% target range in the next quarter, the RBNZ felt that the spare capacity, both in labour and business, meant that inflation wouldn't stick and would be lower next year. The backdrop is that the New Zealand unemployment rate has risen to 5.2% from 3.2% over the last three years. The RBNZ also felt that US tariff uncertainty might be reducing the effectiveness of rate cuts, where uncertainty continues to depress business investment.

We mention all this because of the battles being faced by both the Fed and the Bank of England in terms of how to react to higher short-term inflation. Certainly, neither has the same spare capacity in labour markets as New Zealand does. But the reaction in NZD FX and rates markets today serves as a reminder that if the labour market shows serious signs of softening, doors open for central banks to cut rates back to neutral or even below neutral. That's why we're bearish on the dollar and, to a lesser degree, sterling in 2026.

*Chris Turner*

## ➔ EUR: Lagarde speaks in Geneva

EUR/USD is drifting lower in quiet markets. It might be easy to link this to a lack of progress on Ukraine peace talks, but this seems more like a generalised dollar move. Perhaps there is some modest risk reduction going on as investors pare back some EM exposures. China had some soft July activity data earlier this week.

For today's session, we should see the final eurozone CPI for July and we have some early remarks from ECB President Christine Lagarde who speaks in Geneva. We doubt she's going to shed any light on what the ECB will do in September. For reference, there's just a 6% probability attached to a 25bp rate cut in September, and the market struggles to price in a full 25bp rate cut until next April.

EUR/USD should continue to trade in narrow ranges and we do not see the need for it to break under 1.1590/1600 today.

Additionally, one negative development for the euro overnight is ICE's decision not to include EU joint debt into its sovereign bond indexes. Our rates team will have more on this later – but it's not helpful for the global euro story.

*Chris Turner*

## ➔ GBP: Be careful chasing the CPI rally

Sterling is rallying this morning as July UK services inflation jumped to 5.0% YoY from 4.7%, above market expectations of 4.8%. On the surface, this seems to support the Bank of England's position to be very cautious about further rate cuts. However, our UK economist, James Smith, notes that the rise in services inflation has largely been driven by airfares, a component the BoE is less concerned about when it comes to overall inflationary pressure. The BoE is more concerned about food inflation, which hasn't changed much in today's release.

Therefore, we doubt today's CPI release will alter much of the BoE's current thinking. GBP/USD risks sinking back to the 1.3470/80 area today.

*Chris Turner*

## ⬇️ SEK: Important Riksbank meeting today

We've got an important Riksbank policy announcement at 0930CET today. No one expects the Riksbank to cut the current policy rate of 2.00%. The market is just about pricing one further 25bp rate by the end of this year. Our team thinks the easing cycle [could well be over](#).

Today, however, the Riksbank releases its Monetary Policy Update – meaning we could get some decent revisions on the central bank's thinking on growth, inflation and interest rates. As per the RBNZ story above, it may be hard to see a serious bullish reset on Swedish growth prospects and in a mildly negative environment for risk, EUR/SEK could edge a little higher.

*Chris Turner*

### Author

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### 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)

### 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](http://www.ing.com).