

FX Daily: Dual mandate test for the dollar

Today's US jobs data will reveal if softer employment will indeed be the primary driver for a September cut, as the Fed now sees risks to both sides of its mandate. An abatement of safe-haven flows could leave the dollar exposed to unsupportive macro drivers. Elsewhere, we still favour a gradually higher EUR/GBP despite a mixed reaction after the BoE cut



📌 USD: Looking expensive into the payrolls

One can probably argue that the relatively [cautious tone](#) by the Federal Reserve this week will prevent markets from pricing in more than the current 75bp of cuts expected (25bp at each meeting) by year-end. Some decent action is however happening on longer tenors – i.e. the terminal rate pricing. We have seen the USD 1Y1D forward cash rate drop almost 40bp to 3.64% following Wednesday's FOMC and the 2Y1D move to 3.20% for the first time since February. Our debt team's call for 4.0% in two-year US Treasury yields keeps us confident on rate-driven US dollar softness ahead.

US macro news (FOMC, higher jobless claims, poor ISM manufacturing) are all pointing to a weaker dollar, which is however receiving good support from the widespread equity selloff. Today, the July jobs report will tell the Federal Reserve how much risks are getting skewed to the employment side

of their mandate. The consensus payroll number is 175k, in line with our economists' call. Markets will be quite attentive to the two-month revisions, which were -111k in June, and the unemployment rate, which is seen stable at 4.1% (already above the Fed's year-end 4.0% projection).

We are bearish on the dollar today because a) evidence from employment components of the ISM and NFIB surveys suggest the risks are skewed to a weaker payroll print, and b) once the equity turmoil and safe-haven demand abate, the macro drivers should drag the USD lower. We continue to look at a drop below 104.0 in the near term in the US DXY index.

Francesco Pesole

📈 EUR: Lack of drivers for a while

The stock market instability is proving particularly intense in Europe, perhaps on the back of worse eurozone growth expectations which look unlikely to be countered with big European Central Bank rate cuts given sticky inflation. The Euro Stoxx 50 index is now just above +5% year-to-date against the S&P500's 14%. This equity factor is probably contributing to a lower EUR/USD, which moved back below 1.080 yesterday despite the post-FOMC USD weakness.

Today, we are leaning in favour of some support for the pair on the back of our USD view. The eurozone calendar is empty today, and we are entering a seasonally quiet period not just for data but also for ECB speakers. Given how [poor eurozone activity indicators](#) have been of late, it is probably a good thing for the euro, and we do see room for the common currency to benefit from a benign rate-drive dollar decline.

Francesco Pesole

📉 GBP: Lower rates to take their toll

It was a mixed day for sterling yesterday. Having gone offered ahead of the Bank of England (BoE) meeting, sterling stabilised/rallied on the 5-4 vote to cut rates and as Governor Andrew Bailey provided very [little indication about future cuts](#). Yet as the day progressed, investors firmed up views that this was the start of an easing cycle, the short-end of the UK yield curve fell quite sharply and EUR/GBP closed towards the highs of the day.

Looking ahead, we see scope for the UK policy rate to be cut more than that in the eurozone and look for EUR/GBP to turn slowly higher. While we can understand the narrative of a risk premium being priced out of the pound as the new Labour government tries to mend ties with Europe, we do not think sterling is fundamentally undervalued. And we think it will respond to softer inflation or employment data ahead of the next BoE meeting on 19 September.

We have been too bullish on EUR/GBP this year, but still favour levels above 0.85 later this year.

Chris Turner

📈 CEE: CNB overdelivered on hawkishness

The Czech National Bank (CNB) delivered a hawkish rate cut of 25bp to 4.50% yesterday, which was perhaps too hawkish. According to our expectations, the new forecast shows slightly lower GDP growth and inflation, higher EUR/CZK and a higher rate path. However, the PRIBOR forecast is

probably the only surprise with a significant upward revision. The central bank now sees 4.30% for the end of the year and 3.50% for the end of next year. This is roughly 70bp and 45bp above current market expectations. This seems to us to be such a big difference that the market will find it hard to believe such a hawkish view given the poor outlook for the economy and inflation on target. This was seen in yesterday's market reaction, where rate payers did not have much of a chance in the global rally. On the other hand, we see the main space in the CZK market now. In recent weeks, EUR/CZK was closely followed by the rate differential, which reached multi-week highs after yesterday's session. In our opinion, EUR/CZK will therefore head down with the landing range at 25.20-25.25 as the first stop.

Today the calendar is empty in the CEE region and the market will follow the US jobs data. Still, the CNB will have a meeting with analysts today where we should hear more about the new forecast, so we can expect more hawkish views. Elsewhere in the region, we maintain a bullish bias for the zloty and a bearish bias for Hungary's forint.

Frantisek Taborsky

Authors

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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>.