

## FX Daily: ECB looking through higher wages

The dollar has had a good week ahead of the Memorial Day long weekend, and we still think USD/JPY can stay supported in the coming days. EUR/USD and EUR/GBP look, however, more likely to find some support than fall much further as the ECB's sanguine view on wages should not prevent further gradual shifts towards a less dovish narrative



### ⬇️ USD: Growth convergence story losing steam

Hawkish Federal Reserve minutes and the consequent cooling off in global risk sentiment allowed for a moderate restrengthening of the dollar across the board, offsetting some domestic developments that – as in the case of EUR and GBP – pointed in the other direction. Today is the last trading session before a long weekend in the US, with markets closed on Monday for Memorial Day.

The data calendar has not been particularly busy in the US this week, although yesterday's positive surprise in the S&P Global PMIs endorsed the rebound in the dollar. Those are not as highly regarded as the ISM surveys but have the benefit of being more easily comparable across markets. The jump to 54.4 in the composite PMI puts the US back above the eurozone (52.3) and the UK (52.8), denting the recent narrative of converging growth outlooks across the Atlantic.

Today's key release in the US will be April's durable goods orders, which should come in on the soft side given indications from subdued manufacturing surveys and a sharp slowdown in Boeing aircraft orders. We'll also see the Kansas City Fed services survey later today. On the Fed side, Chris Waller will give a keynote address on the neutral rate, where he may add colour to his recent remarks on inflation and monetary policy, which were perceived as hawkish.

We don't see a strong argument for directional changes in the dollar crosses today. Domestic stories should remain central amid a relatively quiet US calendar and the Memorial Day break. We also maintain our bullish bias on USD/JPY as markets remain carry-oriented and the slowdown in Japan's core CPI (released overnight) endorses the rather cautious pricing for further Bank of Japan rate hikes (25bp by year-end). Markets should continue to test Japan's FX intervention tolerance, and a move to 158.0 looks very much possible in the coming days.

*Francesco Pesole*

## EUR: Watch for some hawkish comments today

Eurozone data has come predominantly on the hawkish side for the European Central Bank this week. Yesterday's good PMIs pointed to further growth momentum, and negotiated wages surprisingly accelerated from 4.5% to 4.7% year-on-year in the first quarter. The latter had long been seen as a make-or-break data point for a June rate cut, but ECB communication has now made a June move close to a done deal, and the ECB was oddly quick to publish a [blog post](#) to play down concerns on rebounding wages. The post stressed how one-off payments boosted the figure in the first quarter, and that a broader set of indicators point firmly to wage pressure deceleration in 2024.

The ECB's "rectification" on wages means the chances of a rate cut being delayed beyond June remain small, even if next week's CPI comes in a bit hotter than expected. At the same time, the chances of a more hawkish tone from the ECB at the June meeting have undoubtedly increased.

Today, the main things to watch in the eurozone calendar are remarks from some of the ECB's hawkish heavy hitters: Isabel Schnabel, Madis Muller, and Joachim Nagel. We wouldn't be surprised if they attempted to take the narrative further to the hawkish end for post-June policy plans after the latest data.

EUR/USD is testing the 1.0800 support this morning and remains predominantly driven by dollar dynamics. The next big event for the pair is in one week with the US core PCE data print, which should have a bigger impact than eurozone CPI, in our view. Still, given the risk of some hotter eurozone inflation and markets having shown a tendency to look on the brighter side of US price dynamics of late, the coming days may revamp some bullish sentiment on EUR/USD. A return to 1.0900 seems more likely than a drop to 1.0700 in the near term.

*Francesco Pesole*

## GBP: EUR/GBP looks cheap

EUR/GBP has found some support close to the key 0.8500 level and is trading on the strong side this morning after UK retail sales came in lower than expected this morning. The April print showed headline sales falling 2.7% YoY and the "ex-auto fuel" gauge -2.0%. March figures were also revised lower. This morning's data follows a generally soft UK PMI report yesterday, where the rebound in

manufacturing failed to prevent a service-driven drop in the composite index to 52.8.

The pound is looking expensive vs the euro at current levels, in our view. The big hawkish repricing in the Sonia curve appears overdone given the hotter-than-expected May services CPI is partly attributed to one-off factors, and we have seen signs of a dovish shift in the Bank of England's MPC balance. Markets are pricing in only 33bp of easing by year-end and less than 10bp for the August meeting. We still expect an August cut, and see any views for delayed easing due to the UK vote as misplaced – more discussion on the election in [this note](#).

Given the risks of the EUR:GBP short-term swap rate gap moving in favour of the euro (hawkish ECB cut and BoE cutting in August), and adding the risks of some small political risk premium being priced into sterling ahead of the July vote, we remain comfortable with our view that EUR/GBP will be heading higher beyond the short term.

*Francesco Pesole*

## ➔ CEE: FX remains sensitive to sell-off

As expected, Turkey's central bank [left rates unchanged at 50%](#) yesterday while retaining a tightening bias in forward guidance. The CBT also announced macroprudential and liquidity tightening moves following the recent developments in credit growth and deposits and to mop up excess liquidity in the system. Our forecast here remains unchanged with expectations of a first rate cut at year-end. In Poland, retail sales data disappointed in April after stronger industry data released on Wednesday. Overall, however, we remain optimistic about a recovery in the second quarter.

The end of the week in the CEE region should be rather quieter compared to previous days. The calendar will only offer data from the Hungarian labour market. In the FX market, after Wednesday's sign of weakness in regional currencies, Thursday saw a return to stability. However, we remain alert and open to possible further weakness in the region in the days ahead. The earlier rally seems to us to have left CEE FX overbought and vulnerable to profit-taking deepening any losses.

*Frantisek Taborsky*

### Author

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