

## FX Daily: European pessimism, Chinese optimism

In quiet markets ahead of G3 central bank meetings later this week, currency pairs are being driven by the soft set of eurozone July PMIs and also the prospect of some renewed Chinese stimulus after China's Politburo promised 'counter-cyclical' measures. These look like short-term trends. We would wait for the policy meetings to set the true FX tone



Source: Shutterstock

### ➔ USD: China stimulus – here we go again

In quiet markets ahead of G3 central bank meetings, the FX market's focus has once again fallen on China. Having broadly disappointed investor expectations this year, China's economy is seen as enjoying a lift after China's Politburo yesterday promised 'counter-cyclical' measures. These follow a drip feed of support measures over recent weeks, such as the easing of restrictions in the mortgage sector, the encouragement to buy cars and electronics, and perhaps some support to local governments saddled with debt. None of these seem to be a game-changer so far, but the market optimists are hoping that this new directive from the Politburo will be turned into powerful stimulus at the State Council level.

Tellingly, USD/CNH did not move much when these measures were announced during the European session yesterday, but Asian investors are running with the story and driving the renminbi some 0.6% higher this European morning. Chinese equities are having a decent run too. These short-term trends may well fizzle out – we've been here before with prospects of China stimulus – but they could provide some mild support to emerging market and commodity currencies through the session.

The reason why we warn against pursuing a full 'risk-on' rally in Rest of World (RoW) currencies is that the European economy looks weak and tomorrow's FOMC meeting will probably see the Fed's foot remaining firmly on the monetary brakes. Additionally, there was an overnight *Wall Street Journal* article by Fed watcher Nick Timiraos entitled: '[Why the Fed isn't Ready to Declare Victory on Inflation](#)' – perhaps a nod to a still hawkish FOMC statement tomorrow.

Today's US data releases are second tier, but the consensus is expecting a decent tick-up in the July consumer confidence reading. As in the UK, there is a growing sense that consumers have so far been able to handle the pain of higher rates, diluting the case for any early easing cycles.

DXY can trade a tight 101.00-101.50 range ahead of [tomorrow's Fed meeting](#).

*Chris Turner*

## ➔ EUR: July PMIs rain on the parade

As our colleague, Bert Colijn, [wrote yesterday](#), the worsening eurozone July PMI figures point more towards contraction than stagnation in the European economy. That is something our European macro team highlights in their [ECB commentary](#) – namely that the ECB is just too optimistic in its growth forecasts. A reality check for those forecasts could undermine the ECB hawks and indeed the PMI data triggered an independent 0.4% sell-off in the trade-weighted euro yesterday.

Even though yesterday's break below 1.1100 in EUR/USD was a euro, not a dollar-led move, we still see some downside risks to EUR/USD from the dollar side later this week. Expect support at 1.1050 to remain under pressure heading into tomorrow's FOMC meeting and a break under 1.10 would of course undo the positive momentum witnessed earlier this month. It is possible we see a very narrow range in EUR/USD today, something like 1.1050-1.1100, where the pro-growth China news may be the only factor holding EUR/USD above 1.1050.

Bigger picture, we may have to wait until September for the more sustainable upside breakout in EUR/USD, when the Fed will have sufficient evidence of disinflation to formally acknowledge it in an FOMC statement.

Also, look out for the German IFO today – presumably as soft as yesterday's flash July PMI releases.

*Chris Turner*

## ⬆️ HUF: No change in NBH's policy easing pace

The National Bank of Hungary (NBH) is scheduled to meet today. We [expect](#) the central bank to continue the normalisation of monetary policy despite recent market volatility, especially in the forint. At its June meeting, the central bank made a slight rebalancing in the order of factors that are affecting monetary policy. The updated forward guidance now puts the effects of international

financial market developments on the domestic risk environment first, followed by incoming macroeconomic data and developments in the inflation outlook. All things considered, we expect the central bank to replicate the decision it made last month and cut the quick deposit tender rate by another 100bp, bringing the effective rate to 15%. Similarly, we anticipate 100bp cuts to the one-day FX swap tender and the overnight repo rate.

The Hungarian forint is gradually normalising following the sell-off, which affected the whole region. We see global momentum and market repricing as the main reasons for forint weakness as local conditions improve. The market sell-off has likely lightened the heavy long positioning and we believe the massive carry will once again attract market interest. In addition, we think the market is pushing NBH to cut rates at a faster pace and thus the hawkish tone should be a boost going back to 370 EUR/HUF.

*Frantisek Taborsky*

### **CZK: Koruna remains above CNB pain threshold**

The Czech koruna softened yesterday to its weakest level since the beginning of the year, with EUR/CZK surpassing the levels of the March sell-off during the Silicon Valley Bank turmoil. We believe that the main reason for this is still the week-old comment by the Czech National Bank (CNB) deputy governor regarding the expected weakening of the koruna, with the market betting on the end of the quasi-commitment. However, as we mentioned earlier, we do not see this intent in the central bank's commentary. On the contrary, we think the CNB must be unhappy about the current EUR/CZK levels. For the bank board, strong FX has been the basis of communication for a long time and therefore we think 24.00 is the pain threshold for the central bank.

Thursday marks the start of the blackout period ahead of the August meeting and hence we can expect with a high degree of certainty the release of the board members' interviews or statements today or tomorrow. We expect the board members to attempt some pushback against a weak koruna and also a very dovish market pricing. In our view, it is the weak koruna that may be a reason for the board to delay rate cuts this year. In the meantime, however, if EUR/CZK moves higher again we expect the CNB may enter the market earlier than what used to be the usual intervention level last year, i.e. 24.60-70 EUR/CZK.

*Frantisek Taborsky*

## Authors

### Chris Turner

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

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

### Frantisek Taborsky

EMEA FX & FI Strategist

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

### Francesco Pesole

FX Strategist

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