

## FX Daily: Expect fewer fireworks this week

We don't think Fed week will be as tumultuous as ECB week, as the scope for surprises in Washington appears much lower and markets have made a strong conviction call on a 75bp hike. EUR/USD should now become more sensitive to eurozone data releases, and this week's CPI figures will be watched closely. Parity still looks more likely than a big rally from here



### ➔ USD: High conviction on 75bp hike by the Fed

Following a rather tumultuous ECB week, we've entered Fed week with markets likely having a more solid conviction call on the magnitude of the rate increase. After having quite briefly flirted with the idea of 100bp, investors have centred their expectations around a 75bp move on Wednesday, which is also where economists' consensus and [our baseline scenario](#) lies. Compared to last week's ECB meeting, there appears to be more limited scope for a surprise in each direction at the July FOMC and we, therefore, expect market volatility to be impacted less this week.

From an FX perspective, we could see a Fed that largely endorses current market pricing for future rate hikes, having a somewhat contained impact on the dollar in the immediate aftermath of the rate announcement. However, we think the Fed message could put a floor under the dollar into September, as the notion that the Fed is still in the front-loading phase of tightening could prevent markets from offloading their long dollar positions. Incidentally, other major central banks

(ECB and Bank of England in particular) appear more exposed to dovish re-pricing risks.

Looking at other FX drivers this week, recession fears should continue to prevent a solid recovery in risk sentiment, which should incidentally give some extra support to safe-havens (including USD) and may keep the path uneven for high-beta commodity currencies. On the data side, the 2Q advance release of US GDP figures (after the Fed meeting) should be rather uninspiring, and our economists expect a 0.4% quarter-on-quarter annualised reading (consensus: 0.5%). That should already be in the price, and we doubt it can significantly derail the Fed's tightening plans or the market's pricing given that the Bank's message already embeds the idea of sacrificing economic activity to a certain degree in order to fight inflation.

We expect DXY to keep hovering around the 107.00 level into the FOMC meeting, and possibly re-test 108.00 after Wednesday.

## ➔ EUR: A new sensitivity to data releases

The EUR/USD's volatile reaction to Friday's PMI figures may be an indication of how the new policy stance by the ECB (data-dependent, meeting-by-meeting approach) now inevitably implies a larger market impact of key economic releases. It's likely that this also applies to ECB speakers, but we can only see one scheduled speech this week - by Bank of Italy Governor Ignazio Visco on Thursday.

With this in mind, we'll need to scan the eurozone's calendar with much more scrutiny from now till September. This morning, the German Ifo survey may mirror the worsening economic outlook displayed by PMIs last week, and while the economic confidence data on Thursday may have a limited market impact, we'll also start seeing July CPI figures from single countries on Thursday before eurozone-wide numbers are released on Friday. Inflation data should signal that price pressures have not abated yet (we expect another acceleration from 8.6% to 8.8%) and should generate fresh volatility in the EUR-crosses.

We continue to highlight how the current pricing on ECB tightening appears overly hawkish when factoring in the economic gloom, and this implies - in our view - that there is an asymmetrical balance of risk for EUR/USD in the near term when it comes to reacting to incoming data, as the chances of a EUR-negative dovish repricing are considerably higher.

We think 1.0200 could prove to be an anchor for EUR/USD for the remainder of the summer, but re-testing parity is a tangible risk in the current high-volatility environment, and in our view looks more likely than a jump to the 1.04-1.05 area.

Italian sovereign spreads will be watched closely as the election campaign ahead of the 25 September election kicks off. The risk now is that markets may try to test the tolerance of the ECB for the BTP-Bund spread before (and if) the TPI tool is triggered.

## ➔ GBP: Eyes on politics

It's going to be a very quiet week in the UK calendar, as the Bank of England is in the quiet period ahead of next week's policy meeting and there are no market-moving data releases. This means most of the focus will be on the first week of campaigning for Rishi Sunak and Liz Truss in the run-off of the Tory leadership contest. Betting websites currently attach a close-to 65% implied probability that Truss will secure the Prime Minister post.

The two candidates will hold their first head-to-head televised debate tonight, giving a chance to investors to gauge their positions on some key topics. Still, it is too early to see a material impact on the pound, which should continue to move in line with risk appetite. We suspect GBP/USD will struggle to trade sustainably above 1.2000 in the current choppy environment.

## 📌 CEE: The region remains vulnerable to global events

As usual, the second half of the month offers [a weaker calendar](#) in the region and this week will be no different. Today we will see labour market data from Poland and Hungary. In line with the market, we expect unemployment to fall by one-tenth to 5% in Poland and wage growth of almost 16% in Hungary. In the Czech Republic, the first estimate of second-quarter GDP will be released on Friday, the first in the region. The market expects a 0.7% quarter-on-quarter decline, but the range of estimates is unusually wide, reflecting the considerable uncertainty about the second quarter.

More interesting, however, will be monetary policy. [Hungary's central bank meets on Tuesday](#). We expect another 125bp hike in the base rate to 11% and the same move on Thursday for the deposit rate. The forward guidance will remain hawkish, suggesting further rate hikes, as we are still waiting for inflation to peak in Hungary. In the Czech Republic, the blackout period begins on Thursday ahead of the CNB's August meeting, so we should hear more statements from board members before then.

The situation remains negative in CEE markets, mainly by global events. Recession fears, ECB echoes and the looming Fed are creating an unfavourable constellation for regional currencies. In our view, all CEE3 currencies are currently overvalued and any negative news from the global market could trigger a sell-off. The main opportunity may, of course, be a hawkish outcome from the Fed meeting this week. Given the recent drop in market expectations of further monetary policy tightening in Poland, we see the zloty as the most vulnerable at the moment and continue to believe it should trade closer to 4.80. The Hungarian forint will be driven by the outcome of the NBH meeting this week, however, headlines from the Hungarian government's meeting with the European Commission may also come into play. The koruna has moved closer to CNB intervention levels, so we can expect more central bank activity this week, however, we anticipate the koruna to remain near 24.60.

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