

FX Daily: Failing to find USD positives

The dollar continues to weaken, as prospects for an economic recovery are hit further by a spike in Covid-19 cases



⬇️ USD: Failing to find any positives

The US dollar shrugged off concerns about the US-China trade situation fairly quickly and the dollar embarked again on a broader weakening trend. The ongoing spike in Covid-19 cases in the US is not helpful for USD either, keeping the prospects of a fast economic recovery at bay. Indeed, compared to previous weeks, the dollar decline this time is not being driven by the reflation dynamics (with the US Treasury curve missing the prior steepening trend). The New Zealand dollar underperformed overnight as the Reserve Bank of New Zealand reiterated downside risks to the economy and identified an appreciating NZD as putting pressure on export earnings.

⬆️ EUR: Another sign of a gradual recovery ahead

We are looking for a modest improvement in German June IFO, in line with the increase in the eurozone PMI yesterday. But as the June PMI showed, the rise is likely to be gradual. With the USD trading on the back foot, EUR/USD should remain above the 1.1300 level today. In Sweden, the focus is on the June Economic Tendency Indicator. It is expected to increase (as is the case for forward looking indicators elsewhere), yet what matters more for the Swedish krona is global risk appetite. EUR/SEK to hover around or below the 10.50 level. In Hungary, the central bank delivered a surprising 15 basis point rate cut yesterday but we expect the negative effect on the forint to be

one-off rather than the start of a strong HUF bearish trend. The 15bp cut to both the base and 1-week depo rates is not overly aggressive, no cap on 1-week depo facility was introduced, there is no firm forward guidance on further cuts and QE is on hold. EUR/HUF should not exceed 350 materially.

⬇️ GBP: Reopening plans to have limited effect on GBP

The UK government's plan to lift lockdown measures should have a muted impact on sterling as it does not alter the key GBP driving factor – the uncertainty about the UK-EU trade deal. GBP to remain the European FX underperformer, despite the benign risk appetite.

➡️ CZK: The CNB unlikely to follow the footsteps of the NBH

Unlike the National Bank of Hungary yesterday, we don't expect the Czech National Bank to surprise the market today and the bank should stay on hold. The board members' communication pointed to an on-hold decision while the bank has already delivered a cut larger than the CNB's staff recommendation in May. The expected on-hold decision should have muted impact on the koruna as the market is pricing in a low probability of a cut. The relatively strong fiscal position, an inflation-minded central bank and, in our view, low odds of FX intervention to lean against possible CZK strength (CPI is slowing gradually and deflation risks are not present now) all make the koruna attractive.

Author

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

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.