

## FX Daily: Fairly priced

The dollar starts the new week on the firm side after some impressive US July jobs figures on Friday. US money markets now price around 125bp of further Fed tightening and then a softer Fed profile from next summer onwards - pretty much now in line with our house view. Firm US July CPI data this week can see the dollar continue to trade near its highs



Source: Shutterstock

### ➔ USD: Dollar to hold near highs, but interest in carry could emerge

An unequivocally strong [US July jobs report](#) released on Friday has gone a little way to assuaging recession fears and given credence to last week's pushback from the Fed that it was nowhere near done in terms of tightening. Pricing in the US money markets now sees a further 125bp of Fed hikes this year (we see hikes of 50bp, 50bp, and 25bp in September, November and December). And those money markets price in around 50bp of cuts from summer '23 onwards. Current pricing is consistent with our house view and perhaps could usher in a period of calm for Fed pricing and the dollar.

That pricing looks unlikely to be altered much this week with a strong US July CPI, [where the core](#)

[rate should stay near 6% year-on-year](#) and keep the Fed concerned. There should also be focus this week on the Senate's approval of what is now called the [Inflation Reduction Act](#) - legislation focused on bringing down prescription drug prices and targeting spending on the climate emergency. At \$437bn it is a far cry from the \$1-1.5trn initial plans for the Build Back Better legislation and thus seems unlikely to be read as any kind of major fiscal stimulus. It will be interesting to see, however, whether new taxation on stock buybacks next year triggers a rush of stock buybacks this year - potentially supporting US equities (and probably the dollar) into year-end.

Expect DXY to hold near its recent highs of 107. But if the dollar is not going anywhere in a hurry, there could be renewed interest in the carry trade. Of the available carry, we think the near 10% levels offered through the 3-month Mexican peso implied yields look attractive. Here Banxico does a good job of keeping USD/MXN stable and is expected to hike rates 75bp to 8.50% this Thursday.

*Chris Turner*

## ⬇️ EUR: Italy's ratings outlook change won't help the euro

On Friday evening, the ratings agency Moodys shifted its rating outlook on Italy's sovereign debt from stable to negative. Given that Moodys' Italian rating is just one notch above junk - that has raised some eyebrows and no doubt will call the European Central Bank [into further supportive action](#), be it through the more aggressive re-investment of the Pandemic Emergency Purchase Programme or potentially even using its new support instrument - the Transmission Protection Instrument (TPI). None of this will help the beleaguered euro, where the ECB's trade-weighted measure remains glued to the lows of the year. Indeed, if quiet summer markets prompt renewed interest in the carry trade, the euro will probably be one of the preferred funding currencies.

EUR/USD was understandably hit by Friday's strong US jobs release data and looks like it can stay offered in a 1.0100-1.0300 trading range.

Elsewhere, EUR/CHF will be monitoring the performance of Italian bonds today and can probably edge back towards the lower end of a 0.97-0.98 range - a move that will not be unwelcome to the newly hawkish Swiss National Bank.

*Chris Turner*

## ➡️ GBP: Week culminates in a 2Q GDP contraction

Following last week's [pretty bleak Bank of England meeting](#), the focus this week will be Friday's release of 2Q22 UK GDP data. The market is expecting a 0.2% quarter-on-quarter contraction, we are looking for -0.1% QoQ. A contraction is widely priced because of the extra bank holiday in June, but weaker activity will highlight the BoE's call of the UK entering a recession in 4Q22 and contracting 2% over the five subsequent quarters.

Sterling probably has not sold off more since investors do not quite know what to do with a reserve currency that will be backed by rates at 2.25% if we are correct with our BoE call for the September meeting. Given that the euro should remain soft, we are sticking with our original call from last Thursday that EUR/GBP may struggle to break above the 0.8450 area this week.

*Chris Turner*

## ⬇️ CEE: Inflation strikes back, again

A [heavy calendar](#) in the Central and Eastern Europe region is again led by inflation numbers. On Monday, we will see data from the labour market, foreign trade and industrial production in the Czech Republic. The monthly numbers show a slowdown in the economy, but we have also seen some positive surprises that reduce the risk of a technical recession in the second half of the year. Inflation in Hungary will be published on Tuesday. Peter Virovacz expects a further increase from 11.7% to 13.3% year-on-year, slightly above market expectations, also supported by tax changes. In the Czech Republic, inflation will be published on Wednesday. Again, we expect a new record at 18.5% YoY, well above market expectations, mainly due to the announced energy price hikes. On Thursday, we will see inflation in Romania. Valentin Tataru forecasts a drop in YoY terms from 15.1% to 14.6%, which would mark the first decline from the peak. On Friday, the current account in Poland and the Czech Republic will be published, we will see the final estimate of Polish inflation and the Czech National Bank will publish minutes.

In the FX market, on the floating side of the CEE region, the Polish zloty and Hungarian forint have strengthened significantly in the past week and, as we mentioned on [Wednesday](#), it is a bit too much for our liking. In both countries, market interest rate expectations have since fallen further, driving rate differentials to their lowest levels since mid-June in Hungary, and April in Poland. Moreover, Friday's US jobs report supported the dollar, which is also not playing into the region's hands. Thus, in our view, the only thing that saved the zloty and forint from losses at the end of last week was the positive market sentiment and risk-on mode. However, we expect both currencies to be weaker this week. We see the forint as more vulnerable, with our target at 399 EUR/HUF and the zloty at 4.75 EUR/PLN for the days ahead. The koruna is still liquidating short positions after Thursday's [CNB meeting](#) which made it clear that the end of FX intervention is not on the table. However, we expect the koruna to return to 24.60 EUR/CZK soon. The Romanian leu remained untouched after Friday's central bank meeting and is still enjoying its trip to stronger levels around 4.925 EUR/RON - a move that we think is temporary.

*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 <http://www.ing.com>.