

## FX Daily: Fed echoes

FOMC minutes as a communication tool against easing expectations should keep the US dollar supported. German recession is becoming inevitable. Sterling strikes back at the euro, backed by a hawkish Bank of England. And GDP data in Central and Eastern Europe will show how close we are to recession



### USD: Dollar to stay supported into FOMC minutes

The dollar goes into today's release of the 27 July FOMC minutes about 2% off the highs of the year. This particular meeting had triggered a sell-off in the dollar on the view that the Fed might have already taken the policy rate to some kind of neutral level and that future rate hikes would be undertaken on a meeting-by-meeting basis.

The question is whether the Fed wants to use these minutes as a communication tool to push back against the view of a 2023 easing cycle. Post-meeting rhetoric from the Fed suggests that this is more likely to be the case – especially since the Fed funds futures price the policy rate being cut from 3.60% to 3.20% in the second half of next year.

A further rejection of this market pricing should help the dollar. And bearish flattening of the US Treasury curve could pressure the commodity currencies. Here, currencies like AUD/USD could come under pressure again – hit by the Fed applying the brakes to growth at the same time as

Chinese growth prospects are being revised even lower.

Favour DXY pushing up the 107.00 area.

*Chris Turner*

## 📉 EUR: Consolidating near the lows

The European Central Bank's nominal euro trade-weighted index (weighted against 19 major trading partners) is now at the lows of the year. The gas crisis and what it means for eurozone growth prospects this winter is clearly taking a toll on the euro. As Carsten Brzeski wrote yesterday in reaction to a near record low [German ZEW sentiment reading](#), a German recession is almost inevitable in the second half of the year. Perhaps the ECB, rather like the People's Bank of China earlier this year, will embrace a weaker currency?

After a month of consolidation, EUR/USD does not look particularly oversold on technical indicators, and we continue to favour support at 1.0100 giving way to a move to parity.

*Chris Turner*

## 📈 GBP: Sterling enjoys the Bank of England re-pricing

This week, sterling has been fighting back against the weaker euro. In addition to euro weakness on the back of higher gas prices, the move in gas has also helped to re-price the Bank of England cycle again. Look at OIS pricing for the BoE policy rate in March 2023, market pricing has shifted from 2.72% in late July to close to 3.40% yesterday. And on top of that, UK inflation quickened to 10.1% year-on-year in July, faster than expected and a new 40-year high.

These moves are providing sterling with some insulation and any further extension in the gas price surge could send EUR/GBP all the way back to 0.8350. As an exporter of natural gas, the US does not face these challenges and our bias in GBP/USD remains sub 1.20.

*Chris Turner*

## 📉 CEE: Poland most at risk of recession signals

Today's GDP numbers will show the state of the economy in the CEE region in the second quarter, what we can expect from the third quarter and what the chances of a recession are. Two weeks ago, the Czech Republic released GDP data, which positively surprised with 0.2% quarter-on-quarter growth and narrowly avoided a downturn. Today, we will see [data](#) in the rest of the region. In Poland, we expect a 1.2% QoQ decline, worse than the market expects. But on a YoY basis, that still gives a solid 6.5%. For Hungary and Romania, we expect 0.4% growth, which is more or less in line with expectations, but in all cases the surveys are quite broad, reflecting the uncertainty associated with 2Q. We believe that Hungary was able to avoid a drop in GDP versus the previous quarter, as industry was able to shake off the supply-side issues by the end of the quarter. In the meantime, retail sales suggest that consumption has embarked on a soft landing, but we are not ready to call a drop yet in the second quarter. In Romania, after a very strong first quarter, the economy seems to have entered a phase of quasi-stagnation. Industrial production has probably contracted in the second quarter, but retail sales remain solid.

In the FX space, the Polish zloty has resisted any significant upward movement as part of the sell-

off in recent days, which today's data, supporting the National Bank of Poland's dovish narrative, should change. Moreover, the zloty so far has ignored rising gas prices and regional movements in recent days, which we believe makes it vulnerable. On the other hand, the Hungarian forint is already at the end of its sell-off unless we see another jump in gas prices or a strengthening US dollar, which could be the case after the Fed minutes today. On the other hand, the weaker forint has supported market expectations of a more decisive National Bank of Hungary rate hike, which has pushed the interest rate differential higher and should dampen any pressure on the forint to weaken further. The Czech koruna is almost within reach of Czech National Bank intervention levels and the scope for further depreciation is shrinking.

*Frantisek Taborsky*

## Author

### **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)

### **Francesco Pesole**

FX Strategist

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

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