

## FX Daily: Hawkish Sintra kicks off

The ECB Symposium in Sintra starts today, with an introductory speech by Lagarde plus remarks from other ECB members. A generally hawkish tone should come from all sides: the eurozone (despite a worsening growth outlook), the UK (despite the mortgage crisis) and the US. We'll also monitor the speech by Norges Bank Governor today and Canada's CPI numbers



The ECB Forum is an annual event by the European Central Bank held in Sintra, Portugal

### ➔ USD: Slightly weaker into Sintra

The week has started on a rather quiet tone across most asset classes. The dollar is trading softer against the pro-cyclical currencies, a sign that the FX market has also fully overlooked the weekend crisis in Russia. As highlighted in yesterday's FX Daily, investors are fully focused on the central bank story, and with the FOMC and post-FOMC hawkish messages having now been absorbed, we are transitioning to a period where data will tell investors whether there is any need to push tightening expectations beyond the one rate hike priced in for July.

The notion of first and second-tier data releases is a bit more muffled in an environment where markets are spasmodically looking for evidence of disinflation and/or economic slowdown. We will see a gradual intensification in the US data release calendar in the coming days, which will culminate with ISM services and payroll data on 6 and 7 July; and then June CPI figures on 12 July.

Zooming back into this week, the Conference Board consumer confidence data today will be the highlight of the day, although some focus will also be on May's Durable goods orders and new home sales, and on June's Richmond Fed Manufacturing index. Consensus expectations point to a relatively firm set of numbers, and we see no reasons to strongly disagree. Considering the low likelihood of a dovish turn by Fed Chair Jerome Powell at his Sintra speech tomorrow, an acceleration in the dollar decline does not seem very likely.

*Francesco Pesole*

## ➔ EUR: Hawkish comments in Sintra expected

Evidence of a deteriorating economic outlook in the eurozone appears to be mounting. [Yesterday's IFO survey in Germany](#) came in on the weak side, with the Business Climate index falling more than expected from 91.5 to 88.5 and the expectations gauge from 88.3 to 83.6. The Current Assessment indicator matched expectations, but still declined in June from 94.8 to 93.5.

When adding other forward-looking business surveys (PMIs, ZEW) the case for a negative re-rating of the eurozone growth outlook is clearly strengthening. The euro's null reaction to yesterday's IFO was likely due to the rather pronounced post-PMI drop on Friday: in a way, the IFO merely confirmed what PMIs had already flagged last week.

Most importantly, the ECB has appeared primarily focused on inflation concerns as opposed to the growth discussion. Sintra was the stage for pivots in the monetary policy message in past editions, but this year, the message may be a reiteration of the hawkish tone we heard after the latest policy meeting: a hike in July is necessary, one in September is up for debate. President Christine Lagarde delivers her introductory speech this morning, and then we'll hear from Panetta (a dove) and Schnabel (a hawk). Ultimately, EUR/USD may not be trading far from 1.0900 at the end of the Sintra summit.

We'll also be paying attention to Norges Bank Governor Ida Wolden Bache's speech today in Sintra. NOK has faced huge volatility after the larger-than-expected 50bp hike by Norges Bank last Thursday, with the initial rally proving very short-lived and the krone plunging on Friday. EUR/NOK is now back below 11.70, but we may still hear some attempts to propel the currency higher from the governor.

*Francesco Pesole*

## ➔ GBP: No pushback against aggressive expectations

Sintra is an important event for sterling as well. While tomorrow's speech by Bank of England Governor Andrew Bailey is the most awaited event, today's speech is by the two most dovish voices in the MPC: Silvana Tenreyro and Swati Dhingra. The former will be replaced in the committee by Megan Greene on 5 July and her remarks should have reduced market impact, while any hawkish comments by Dhingra may be read as a de-facto endorsement of the market's aggressive tightening expectations.

The Sonia curve is pricing in a 6.15-6.20% peak rate as of this morning around the turn of the year, and keeping the option of a 50bp hike in August very much on the table (44bp priced in). Data may argue against such aggressive action down the road, but the majority of Bank of England officials look unlikely to vehemently push back against tightening expectations for now. EUR/GBP does not

have huge downside room, but a rebound to 0.88 will likely be very gradual.

*Francesco Pesole*

## CAD: Inflation numbers in focus

Markets are split around whether the Bank of Canada will follow up with another rate hike in July after resuming tightening in June. The CAD OIS curves is currently pricing in 15bp for the 12 July meeting, while fully factoring in a hike by September.

Today's inflation data in Canada will be key to driving market expectations for the July decision. Consensus is looking for a rather substantial slowdown in headline inflation from 4.4% to 3.4%, while the core measure should decelerate to around 4.0%. We are still inclined to think that the BoC will go for another hike in July, and it may take a sub-consensus read in underlying inflation today to convince them not to.

Either way, with the Fed still threatening to tighten more, it seems hard to fully price out BoC tightening down the road, and CAD – which has the best volatility-adjusted carry in G10 – may not fall out of markets' favours just yet. We still target sub-1.30 levels in the third quarter.

### Author

**Francesco Pesole**

FX Strategist

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

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