

FX Daily: Holding patterns

The dollar has found support on the better-than-expected July US retail sales number. Lower volatility and a firmer USD/JPY have also contributed to better risk appetite. Today's data calendar looks quite bare, but what should be the start of the Fed easing cycle in September should limit dollar rallies. Look out for August consumer confidence today



➔ USD: First look at August consumer confidence

The dollar received a lift from the better-than-expected retail sales data yesterday. As [James Knightley highlights](#), the data has prompted investors to shift towards pricing a 25bp Federal Reserve rate cut on 18 September. However, there will be a myriad of data inputs into the Fed equation and the events calendar picks up next week. For today, however, the focus will be on August University of Michigan consumer confidence data. This survey will have been taken during the stock market rout at the start of August and could see consumer expectations sink further. This could be a little bearish for the dollar.

Elsewhere, firmer US rates have allowed USD/JPY to climb back towards 150 and have encouraged flows back into the high yielders like the Mexican peso and the South African rand. We still have our concerns over the peso given potential constitutional reforms next month and doubt investors

will chase USD/MXN much under 18.50.

DXY is consolidating, but we have a bias for a drop to 102.15/25 next week.

Chris Turner

➔ EUR: More about the dollar

Journalists ask us whether we think EUR/USD at 1.10 represents some significant re-assessment of the euro. We think that is not the case and 1.10 more represents the fading story of US exceptionalism. That may all change after US elections in November. We spell out alternative paths for EUR/USD under specific policy assumptions in our [election scenario analysis here](#).

Chris Turner

⬇️ BRL: Commodity prices are a drag

USD/BRL has come off sharply from its early August spike to 5.80. The broad turn lower in the dollar and the global equity market recovery are helping. However, the commodity story is a worry for the Brazilian real. Brazil's terms of trade have dropped to the lowest levels since January 2023 as weak Chinese demand weighs on both soybeans and iron ore – two of Brazil's key exports. Brazil's terms of trade levels are more consistent with USD/BRL trading at 5.70/5.80.

In addition, investors await the Brazilian government's 2025 budget plans – which are announced on 31 August. The market view is split here. If the Lula administration prioritises social spending, then fiscal targets will be missed and the real will be hit hard. However, some in the market suspect that the government will cut spending to try and keep the bond market on side. Typically fiscal weakness has always been the Achilles heel of Brazilian asset markets.

Given this late August event risk with the budget and the terms of trade drop, we suspect USD/BRL will struggle to break support in the 5.40/45 area.

Chris Turner

⬆️ CEE: Harder life after US data but still room for gains

The end of the week should be quieter than previous days in the CEE region with only secondary data in Poland and the Czech Republic. In the morning, we will see PPI data in the Czech Republic for July, which our economists expect to see only a small pick-up from 1.0% to 1.1% year-on-year. Later, core inflation for July will be released, which should show a slight increase from 3.6% to 3.7% YoY and we expect further increases in the months ahead.

It was more or less a successful week for CEE currencies, especially in USD crosses as we turned bullish on the region at the end of the last week. We mentioned on Wednesday that the room for a further rally here is shrinking but yesterday's strong US data sent CEE FX into a brick wall. However, part of the CEE market was closed for a local public holiday and we should see some catch up with higher core rates today. The Czech koruna and Hungarian forint markets were open yesterday and saw some losses already. However, we still believe there is more space for the CEE currencies to rally. EUR/USD is coming back after the US data and some pressure on paying rates in CEE following higher core rates should again improve the picture for CEE currencies. We remain positive on the zloty and koruna, whereas for the forint we want to be more neutral at these levels.

But it is clear that from these levels it will be harder for CEE to see further gains.

Frantisek Taborsky

Author

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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.