

FX Daily: Japan election results add to yen uncertainty

We would not read too much into the marginal strengthening of the yen after Sunday's Upper House election result in Japan. Uncertainty is clearly on the rise here. For the week ahead, we have rate meetings in the eurozone, Hungary and Turkey, plus new business confidence readings in Europe. A new dam project in China also looks exciting for commodity FX



Japanese Prime Minister Shigeru Ishiba has expressed his intention to stay on and try to cut a trade deal with the US

➔ USD: A quieter week for US data sees focus shift to housing, tech and Powell

The week ahead should be a quieter one for US data. Last week's softish set of price data did not move the needle substantially on Fed thinking, where the market continues to price just 1-2bp of cuts for the 30 July meeting and 16bp of cuts for the 17 September meeting. Short-dated rates seemed to soften a little on Friday after the Federal Reserve's Christopher Waller [laid out his case](#) for a July cut. However, Waller remains in the distinct minority of two, and we're probably going to need to see some very soft data, particularly in the labour market, to convince investors that early

cuts are coming. Remember that here at ING, we think the Fed could hold back the first cut (50bp in our view) until December.

How will US data look this week? Things might be quieter, but the attention will switch to the housing market. Have still-high mortgage rates caused the housing market to seize up? Some are worried that the June existing and new home sales data released on Wednesday and Thursday this week could show some deterioration. On the subject of mortgage rates, US 30-year Treasury yields are lingering around their highs at 5.00%. Investors here will be on the lookout for the results of a \$13bn auction of 20-year Treasuries on Wednesday for the latest demand trends.

It could also be another important week for tech stocks. We've had further earnings reports from Alphabet, Tesla and Intel this week – plus on Wednesday, US President Donald Trump is laying out his plans to 'win the AI race'. Presumably, US big tech will be prioritised here.

In the absence of market-moving data, we suspect the dollar can continue to consolidate. It has already had three weeks of consolidation, and in quiet markets, plus 4%+ funding costs being short dollars, there does not seem to be an immediate catalyst for weaker levels. Trading inside last week's 97.70 to 98.95 looks likely for DXY this week.

Elsewhere, the commodity market is focusing on the launch of a CNY1.2tr dam project in Tibet. Iron ore and steel prices are soaring, which could be some good short-term news for iron ore exporters in Australia, Brazil and South Africa. The Canadian dollar might lag, and today could be driven by the Bank of Canada's second quarter Business Outlook survey, which will shed light on whether the BoC needs to cut 25bp again later this year. Investors are far from convinced at the moment.

Chris Turner

➔ EUR: ECB and PMIs in focus this week

EUR/USD seems quite comfortable near the 1.1600 level. In theory, it has had enough consolidation should it want to move higher again, though there does not seem to be a catalyst for that this week. The focus in Europe will be on Thursday's European Central Bank meeting. We doubt ECB President Christine Lagarde will shake things up too much ahead of the central bank's summer break, although there may be some continued concerns over [recent euro strength and particularly the direction of tariffs](#). The mood music on EU tariffs seems poor at the moment, and the kink in the EUR/USD FX options implied volatility curve in the two-week tenor suggests investors are again wary of the new 1 August tariff deadline.

In addition to the ECB this week, we have the flash July PMIs for the region, also on Thursday. These are hovering around the 50 area, but economists will be keen to look at the inventory data for any signs that stocks have been worn down and might require a refill. Equally, Friday's German Ifo release should show continued optimism in the expectations component on the back of infrastructure investment prospects – albeit in 2026.

EUR/USD has found support under 1.16. There is not a strong case for it to go much lower this week, and consolidation inside last week's 1.1550-1.1720 is our call.

Chris Turner

ecb

➔ JPY: Don't read too much into yen strength

The yen is a little stronger today as the market digests yesterday's Upper House election results. Here, the ruling coalition between the Liberal Democratic Party (LDP) and Komeito lost its majority, although it remains by far the largest political bloc in parliament. The problem, it seems, is that the opposition parties are very splintered and have little chance of coming together as a political force.

Where does this leave Japanese politics and the yen? Heightened uncertainty looks likely. Current Prime Minister Shigeru Ishiba has pledged to stay on and try to cut a trade deal with the US. Opposition parties might try to make political hay by pushing for looser fiscal policy to address the cost of living challenges in Japan, and this prospect [had weighed on JGBs ahead of the election](#). This sounds yen negative. And there is also the risk that if PM Ishiba is pressed to step down, he could be replaced by someone like Sanae Takaichi, who wants the Bank of Japan to go slow with rate hikes. In other words, it is not clear that the yen should be rallying today. A clearer read may emerge tomorrow when Japanese financial markets reopen after the Marine Day public holiday.

Let's see how the dust settles over the next couple of weeks; we don't rule out a brief spike to the 151/152 area. But by year-end, we expect the weaker dollar to be the dominant theme and USD/JPY to be trading back to the 140 area.

Chris Turner

➔ CEE: Local story returns to the driving seat

After a rather quiet week in the CEE region, this week we will see more action from central banks and some interesting economic data. Inflation expectations for July in Turkey and wage and industrial data in Poland will be released today. While industry remains weak in Poland and we have seen some downside surprises in recent months, April's spike in wages seems like a one-off, and July's data should confirm a slowdown, just as in May.

Tomorrow sees the [National Bank of Hungary's next meeting](#), where rates will very likely be left unchanged at 6.50% as a hawkish tone is confirmed. The Central Bank of Turkey also meets on Thursday, and is expected to restart the cutting cycle after the March FX sell-off and re-tightening of conditions. We expect a 250bp rate cut to 43.5%, in line with market expectations. We believe this meeting will open up a series of rate cuts, with four 250bp moves in total this year and a 35% rate by year-end, supported by more disinflation in our forecast.

Our views have not changed much in the past week. Despite some moves and a noisy global market, CEE currencies have maintained lower volatility. We could see more of a local story this week. With the usually dovish signal from Polish data, we remain bearish on the zloty, and despite stability in the last few days, we still see levels around 4.280 EUR/PLN. The NBH meeting should be positive for the forint, but at the same time, the market is expecting nothing but a hawkish tone. We therefore see the impact as limited, and given the narrowing of the interest rate differential in recent days, we see EUR/HUF in the 399-400 range for the coming days. In the Czech Republic, we could hear the first Czech National Bank interviews ahead of the August meeting, which should be hawkish in our view, supporting EUR/CZK down to new lows below 24.600.

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