

FX Daily: Japan may have changed its intervention strategy

The US CPI hit the dollar across the board yesterday, but one move stood out: the 2% drop in USD/JPY. While officials are not admitting it, more than one media report suggests the MoF intervened in the FX market after the US CPI release. That would mark a change in strategy by the MoF, which seemingly chose to intervene only after a JPY-positive market event



📌 USD: September cut starting to be consensus

The June US CPI report showed a convincing slowdown in inflation yesterday, with headline CPI falling 0.1% month-on-month (MoM) instead of rising as predicted. Core CPI came in at +0.1% MoM versus the +0.2% consensus forecast. Housing inflation is finally slowing down, with shelter prices coming in at 0.2% MoM rather than the 0.4% rate seen previously. Other components like owners' equivalent rent and primary rent also showed softness.

Inflation data supports the argument that the Federal Reserve can start loosening monetary policy this quarter. While a July rate cut remains unlikely, 21bp of easing is now priced for September, and 61bp by year-end. Markets will monitor Fed speakers closely after the encouraging June CPI

report, but it is possible the Fed may want to wait until Jackson Hole in August for a more formal shift in communication.

The dollar took a hit after the CPI release, which was exacerbated by Japanese FX intervention that propped up the yen (more on this in the JPY section below). However, the move gradually faded in the broader FX space. That is, in our view, a symptom of how investors remain reluctant to jump into a broad-based dollar decline despite encouraging data. That may be due to the lingering political uncertainty in the eurozone and the perceived higher chances of a Trump re-election. As we pointed out in our monthly FX update, we expect investors to be selective in FX this summer.

Today, PPI figures may move the market given a lot of the components feed into the Fed's favourite PCE measure of inflation. University of Michigan surveys are the other highlights of the day. We think another leg lower in the dollar is possible given markets' growing conviction on Fed easing, and DXY could retest the June 104.0 lows.

Francesco Pesole

EUR: French politics sidelined for now

EUR/USD is now entirely driven by the USD leg as French political risk has now been sidelined while waiting for news on coalition talks. Yesterday, we discussed in our [FX Daily](#) how the euro is “enjoying the silence”, and that can probably remain the case for a few more days.

Beyond the very short term, we still believe markets can grow impatient with the French political stalemate and start to price back in a degree of fiscal risk into the euro, effectively putting a lid on EUR/USD. On the domestic macro side, things remain very quiet today before next week's action, which includes the European Central Bank meeting. For now, lingering downside risks for the dollar mean EUR/USD could take another shot at breaking above 1.0900 soon.

Elsewhere in Europe, Sweden released CPI data for June this morning. Core inflation fell by more than expected and now stands at a cycle low of just 2.3%. That's roughly in line with the Riksbank's own forecasts, which puts the core rate down at 2% over the summer. Given that inflation expectations have also been falling back, it looks like the closely-watched wage negotiations next spring will result in a fairly muted outcome. Add in the fact that Sweden's economy remains on shaky ground given its above-average sensitivity to previous rate hikes, and it looks like the Riksbank can cut rates a further three times this year. That's more than the ECB, but roughly in line with the central bank's own forward guidance.

Francesco Pesole

JPY: MoF surprises with possible intervention

It appears that Japan's Ministry of Finance has tweaked the FX intervention strategy. USD/JPY dropped around 2% after the soft US CPI print yesterday, considerably more than any other USD cross, and the surge in JPY futures volumes seemed consistent with FX intervention. Japan's top currency official Masato Kanda refused to admit that the MoF had stepped into the market but there have since been at least two reports citing internal sources that suggest intervention. It was also widely reported that Japan conducted a so-called “rate check” with traders this morning. If true, data at the end of the month will confirm this speculation. For now, given the rather unusual drop in USD/JPY, we'll run with the assumption the MoF did intervene yesterday.

That would mark a change in Japan's FX intervention strategy. Remember, that at the end of April, the MoF started intervening before a Fed meeting: that round of intervention (JPY9.8tn) has proven to be largely unsuccessful beyond the very near term. Now it looks like the MoF waited to take advantage of a USD-negative market event to boost the yen via intervention. This is a strategy that makes the intervention less noticeable and overt (to a certain extent) and might have ended up achieving a better result in terms of JPY gains as more JPY shorts were unwound in a short period of time.

The US CPI release was good news for the yen regardless of unconfirmed FX intervention as there is a path ahead for USD/JPY to trade lower on a shrinking USD:JPY rate gap. At the same time, FX intervention lowers the chances of the Bank of Japan hiking in July to support the yen, and it may still take time before USD/JPY can enter a sustainable downtrend as speculative, carry-driven JPY selling proved not to be dampened for long after the latest round of intervention.

Francesco Pesole

➔ CEE: Lots to absorb but FX is mixed

We close the week in the region with early data in Romania on industrial production and the labour market for May. However, the markets have a lot to absorb from the previous days. In the CEE region, we saw inflation prints across the board this week. Inflation surprised slightly to the downside in [Hungary](#) but significantly in the [Czech Republic](#). On the other hand, yesterday's readings from [Romania](#) showed a slight upside surprise. However, all of this may have not been in focus due to yesterday's downside surprise in US inflation.

Rates markets thus have many reasons to rally and we will likely see more today. However, the CEE region is significantly outperforming core markets and interest rate differentials have again shrunk somewhat. Higher EUR/USD on the other hand could offset this. The direction for CEE FX is thus unclear and we rather prefer stability. The hawkish Czech National Bank comments could add some support to the CZK, which is losing the most in the region and we could see some recovery towards 25.30 EUR/CZK. In the case of PLN and HUF we are more on the negative side, but nothing too significant. The reverberation of yesterday's core rate movement will be crucial today.

Frantisek Taborsky

Authors

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

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

chris.turner@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>.