

FX Daily: June tells us the dollar is not the only game in town

Despite relatively low levels of volatility, June has so far seen some pretty large spot FX moves in both the G10 and emerging market space. These moves seem to reflect a growing conviction of a soft landing in the global economy and a more hawkish view across the G10 central banks outside of the US. Look out for inflation surveys and central bank speakers today



📉 USD: Two factors weighing on the dollar

We have recently been talking about inverted yield curves and late-cycle dollar strength. Looking at USD/JPY, that seems a fair comment given that it is trading not far from its recent highs and the US 2-10 yield curve is inverting even further (now -94bp) on the back of a hawkish Federal Reserve. However, this month in the G10 space, the dollar is only stronger against the yen and is anywhere from 2% (Swiss franc) to 6% (Australian dollar) weaker against the rest of the G10 currencies. This looks like a function of two factors:

1. The first is the increasing hawkishness shown by the rest of the central banks in the G10 space. Inflation forecasts and expected tightening cycles are being revised higher across the

board and in some cases more aggressively than in the US. This includes recent surprise hikes from Australia and Canada, [a very hawkish ECB meeting yesterday](#), and very aggressive expectations for Bank of England rate hikes.

2. The second is the bullish global risk environment. Investors are cutting allocations to cash and look to be putting money to work in bonds, equities and emerging markets. Against all the odds the MSCI world equity index is up 14% year-to-date and fund managers are surprisingly suffering from a Fear Of Missing Out (FOMO) on a good rally in benchmark risk assets. Notably, USD/CNH reversed lower yesterday despite the People's Bank of China rate cut – suggesting that investors are instead more interested in the prospect of upcoming Chinese fiscal stimulus.

Of course, data remain crucially important and will determine whether central banks need to keep rates tighter for longer or can perhaps start to consider rate cuts – as is the case in some parts of Eastern Europe and potentially Latin America too. But that is ING's central call for the second half of the year – that US disinflation will become more evident through the remainder of this year and that a less hawkish Fed will allow the dollar to sell off.

Back to the short term, the dollar may well stay soft against most currencies except the Japanese yen, with the Bank of Japan remaining resolutely dovish. Here, yen-funded carry trades will remain popular. For today's data, we have the University of Michigan inflation expectations. This occasionally moves markets and any meaningful drop could nudge the dollar lower. Equally, we have three Fed speakers, generally from the hawkish end of the spectrum.

We think the mood to put money to work probably dominates and barring any big upside surprise in US inflation expectations, DXY can probably edge down to the 102.00 area, if not below.

Chris Turner

EUR: Hawkish ECB and better risk environment helps the euro

The trade-weighted euro pushed up around 0.2/0.3% yesterday on the [hawkish ECB](#), but the better global growth environment and softer dollar generated a 1% rally in EUR/USD. As our readers hopefully know by now, we are bullish on EUR/USD in the second half, but we are not sure which month exactly the bull trend would take off. Could it be June?

The hawkish ECB – especially the upward revision to the 2025 CPI forecast – adds weight to our core house view that the central bank will say hawkish for longer and cut rates later than the Fed. At the same time, it looks like investors are gearing up for another expression of faith in Chinese growth prospects. Expectations are now growing that some fiscal support measures can be announced over the coming weeks to back up the recent monetary easing. This week's important turn-around in USD/CNH looks like an encouraging sign for the pro-cyclical EUR/USD.

For EUR/USD today, let us see whether the US data and Fed speakers make much of an impression. In addition, we have four ECB speakers from the more hawkish end of the spectrum. We prefer to back the bullish momentum here and can see EUR/USD pushing on to the 1.1000/1030 region today.

Chris Turner

In Norway, Norges Bank (NB) reported the results of a regional survey yesterday: the main

takeaway was that price pressures continue to grow. This will ultimately help the central bank build its case for pushing rates beyond 3.50%, even though a much more important input to the NB decision-making process is NOK weakness. The next policy meeting is on Thursday when rates are expected to be raised by 25bp to 3.50%, although at this stage we cannot exclude a surprise 50bp hike.

Francesco Pesole

➔ **GBP: Sterling to hold gains into next week's CPI data**

Sterling continues to hold gains as the market rigidly holds onto aggressive Bank of England tightening expectations. This year sterling's correlation with risk assets had fallen, suggesting perhaps that it should not be at the forefront of a risk rally. However, as above, we think the dollar environment is softening and we do not want to stand in the way of a GBP/USD rally.

Looking at the charts it seems there is 'fresh air' between current levels (1.2750/1.2800) and 1.3000 – suggesting the latter beckons.

For EUR/GBP, the hawkish ECB helps strengthen the support at 0.8550, although next week's release of the UK June CPI will probably be the next big driver here, ahead of an expected 25bp BoE rate hike next Thursday.

Chris Turner

⬇️ **JPY: BoJ keeps the yen on the backfoot**

Last night's Bank of Japan (BoJ) meeting produced few fireworks, with the BoJ leaving all its policy levers and its statement unchanged. This has allowed the Japanese yen to remain the prime victim of higher US interest rates – with USD/JPY now pushing through 141.00. We are currently listening to Governor Kazuo Ueda's press briefing and we think there is a chance that the BoJ does tweak its policy set-up at the 28 July policy meeting, when new forecasts will be released.

Until that point, however, USD/JPY may well still bid and should remain in the lead should any US data surprise on the upside. Equally, the yen will lag – and will continue to decline on the cross rates – if this current period of dollar weakness does extend after all.

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