

## FX Daily: Looking out for further signs of a US slowdown

The big question for FX markets is whether July's sharp correction is over. We think events tomorrow (Bank of Japan and Fed meetings) will have a big say. Before then, US JOLTS and consumer confidence data today should add to the case that the US economy is slowing. And in Europe, we'll see second-quarter GDP releases and insights into the July CPI data



The Job Openings and Labor Turnover Survey (JOLTS) is in focus today, with the numbers expected to correct back to the eight million level after the unexpected spike to 8.14 million last month.

### 📌 USD: JOLTS and consumer confidence in play

The dollar had a modest rally across the board yesterday but it was unclear why. It may have had something to do with month-end flows. However, the bigger story for FX markets is whether this broad, cross-market correction seen around 10/12 July has run its course. Tomorrow's event risks will have a big say in that. Here, our team looks for a 15bp Bank of Japan rate hike, which could trigger more independent yen strength and extend the corrective environment. However, a rate hike is far from a given and the vast majority of the local community in Japan think it is too early for another hike. If that's the case, USD/JPY could rally to say the 157 area and see investors jump

back into the high yield/activity currencies which have taken such a beating in July. The second event risk tomorrow is the FOMC meeting, which we think will be risk-bullish and dollar-negative as the [Fed prepares the market for a September rate cut](#).

Today, the focus is on two US releases – both at 16CET. The job opening JOLTS data are expected to correct back to the eight million level after the unexpected spike to 8.14 million last month. Remember that the JOLTS data have been representing the excess demand for labour and a lower figure would confirm the Fed's view that the labour market is coming back into better balance. Also in focus is July consumer confidence data, which is expected to dip lower. Over recent weeks there has been growing momentum – aided by second-quarter earnings reports – that the US consumer is finally rolling over. A softer confidence figure today will add to the view that the Fed will want to "sustain the expansion" with a September rate cut.

DXY did well yesterday but could hand back those gains today were US data to emerge on the soft side or if the rest of Europe emulates France's seemingly strong second-quarter GDP data.

*Chris Turner*

Elsewhere, Australia releases CPI numbers for the second quarter overnight (0330 CET), which may tilt the balance in favour of a Reserve Bank of Australia (RBA) rate hike next week (6 August). Our economics team expect headline monthly inflation to have slowed only modestly to a consensus 3.8% YoY in June, causing an acceleration in the second quarter print from 3.6% to 3.8% YoY. Barring major downside surprises in the core measures, we suspect that a consensus read will make an RBA rate hike increasingly likely. Markets are – in our view – too dovish with pricing (+7bp for next week, +2bp by year-end), and the upside potential for AUD in the next seven days is substantial.

*Francesco Pesole*

## **EUR: Better second quarter GDP may help**

This morning we have already seen a better-than-expected second-quarter GDP figure from France and later today we will see similar updates from Germany, Italy, Spain and then the eurozone. Any upside surprise to the consensus of 0.2% QoQ second quarter GDP reading for the eurozone could provide a modest lift for the euro – breaking the narrative of downside risks to growth and reining in market pricing which is now looking for more than two further ECB rate cuts this year.

Today will also see the national releases of the July CPI data ahead of the eurozone release tomorrow. Currently, the consensus expects the core CPI figure to dip back to the 2.8% YoY area, which looks unlikely to move the needle on ECB pricing.

EUR/USD had a soft Monday, but could find some support on the GDP releases today and move higher tomorrow evening should the Fed turn more overtly dovish as we expect. 1.0800 could prove the floor for EUR/USD this week.

*Chris Turner*

## **JPY: Wednesday will be a big day for USD/JPY**

USD/JPY is consolidating after a sharp 6% drop from 11 July, when soft US CPI data and strategic

Japanese FX intervention took its toll. Speculative yen shorts in Chicago futures markets, in the week to 23 July, had scaled back their positions by 40% over the prior two weeks. This community probably cut positions a little further later last week when USD/JPY traded on a 152 handle. It seems fair to assess that the speculative market is a lot better balanced than it was at the start of July – but is still running decent yen short positions.

Tomorrow's BoJ/Fed combination will of course have a big say on whether this USD/JPY correction goes much further. ING's house view of a 15bp BoJ hike and a dovish Fed argues that the correction extends, potentially close to 150. However, the low volatility environment and already a large correction across risk assets this month warns that if the BoJ surprises us (not locals) with unchanged policy, USD/JPY could have a decent bounce to 157 and that a cross rate, like AUD/JPY, could have a sizable rally.

We'll know a lot more this time tomorrow.

*Chris Turner*

## ➔ CEE: GDP data question the recovery in the region

This morning we have already seen second-quarter GDP data for Hungary, which was lower than expected at 1.5% YoY, while the market was expecting 2.2%. Later this morning we will see the same data from the Czech Republic. We expect 0.6% YoY, which is consistent with some acceleration from the first quarter. It will also be the last number from the economy before Thursday's Czech National Bank (CNB) meeting, but it will not be included in the new central bank forecast.

The CEE market opened yesterday with a sell-off across the board with Polish zloty leading the losses. Rates aggressively followed the rally in core markets and alongside a stronger US dollar, undermined FX in the region and the emerging market space. Still, EUR/CZK showed some resistance to going higher and the Czech koruna remains our favourite currency for this week given our hawkish expectations from the CNB meeting. EUR/HUF is back close to 394, which we think is now fair value and we remain negative on the Hungarian forint given yesterday's rally in the rates space, outperforming CEE peers. On the other hand, EUR/PLN has jumped close to 4.300, which we think is too much and we could see some downside correction back closer to 4.280 today.

*Frantisek Taborsky*

## Author

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Francesco Pesole

FX Strategist

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

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@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](http://www.ing.com).