Article | 3 August 2021

FX Daily: Making sense of range-bound trading

Falling yields helped JPY, a correction in oil weighed on CAD and NOK, and the Aussie dollar jumped after the RBA marginally reduced asset purchases. But the dollar has remained flat against the euro and sterling. As markets still try to make sense of China's regulatory crackdown, a mixed sentiment on the recovery still points at a flat or slightly higher USD

Source: Shutterstock

USD: Not finding direction

The first day of a rather crowded week likely opened more questions than offering answers to a market that is responding to inputs in a bit of an unconventional way. China's opening for discussions with the US on overseas regulations let Asian equities rebound, but markets still need to fully digest what the implications of Beijing's regulatory crackdown will be and whether this will be a new ground for Sino-American diplomatic spats. On the data side, a contraction in the ISM Manufacturing index highlighted once more how supply-chain strains are weighing on the recovery, but the demand side remains strong. When paired with below-consensus PMIs in China yesterday, the market turned a bit less optimistic on the global recovery.

The impact of some global growth re-rating was mostly channelled through a drop in yields – this pushed the oversold JPY higher – and a correction in oil prices – which weighed on CAD and NOK. Equities proved resilient overall, despite Dow closing with a small loss, and this likely put a cap on the dollar's upside. Other currencies - with the exception of antipodeans, that we discuss below - have not been able to break free from their recent ranges.

Today is the quietest day of the week data-wise and markets will remain focussed on any developments in the China-US regulatory crackdown themes. Asian stocks have shown some renewed weakness, but futures point at a positive open of major US indices. We continue to see the overall environment as likely neutral or mildly supportive for the dollar: sentiment on the recovery remains mixed at best, while the prospect of Fed tapering has remained broadly untouched, and was likely cemented by some rather hawkish post-FOMC Fedspeak.

EUR: Rangebound remains the name of the game

EUR/USD has traded sideways since the start of the week, as both the EUR and the USD appeared unable to make idiosyncratic moves. This should remain the case today as no data releases are likely to move the market and there are no ECB or Fed speakers scheduled to speak. While range-bound trading still appears the name of the game for EUR/USD, we are more inclined to think the pair could retrace towards the 1.1800 level rather than decisively break above 1.1900 in the remainder of the week.

GBP: Lack of catalysts

Sterling is largely following EUR/USD rangebound trading, and also in the UK the calendar looks very light today. Some positive news on the contagion side (cases continue to decrease in the UK) and expectations that the UK Government will allow a broad re-open of borders in Thursday's travel-restrictions review are marginally improving the recovery story, but the impact on asset prices is not tangible for now. EUR/GBP could gravitate around the 0.8550 area heading into the BoE meeting on Thursday.

AUD: No material change from the RBA

AUD has started the week on the front foot: China opening a discussion line with the US on oversees regulation has helped the highly exposed antipodeans, iron ore prices have bounced back, and the RBA announcing asset purchases will be reduced from 5 to A$4bn a week from September offered an extra push to AUD this morning. As discussed by our economist in the RBA review, we struggle to see this as a change in stance by the RBA, and the positive AUD reaction may have been the function of part of the market pricing in a halt in the tapering process after the rise in Delta cases in Australia. What matters the most, in our view, is that the forward guidance remains for 2024, and that simply confirms the RBA will be lagging other central banks (especially the RBNZ) considerably in normalising policy, which somewhat limits the upside for the currency in the longer run. From a shorter-term perspective, the AUD continues to be a widely oversold currency and has the widest room among pro-cyclical peers to price in central bank hawkishness.

Author

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.