

FX Daily: Manning the renminbi barricade

In quiet summer FX markets, the top story remains Chinese authorities' defence of the renminbi. This stands to be a long campaign given that USD/CNY is trading near 7.30 for good reason. Elsewhere, tech stocks are making US equities look bid even though steadily higher US Treasury yields pose a challenge. And look out for BRICS expansion news today



📈 USD: 'We've got tech stocks'

US equity markets continue to outperform. This seems largely down to the rally in tech stocks on the AI bandwagon, where Nvidia's 2Q results are widely anticipated for tomorrow. US equity performance is adding to the sense of 'US exceptionalism', backed also by better growth numbers and a central bank that has more reason than most to stay hawkish late into its tightening cycle. There is only second-tier US macro data today, but with US Treasury yields continuing to push higher, headwinds to the equity rally are growing, and temporarily parking funds in the dollar paying 5.30% in overnight rates doesn't seem like a bad idea. Equally, we expect the dollar to stay largely bid into Friday's Jackson Hole speech from Fed Chair, Jay Powell.

Two other highlights today. The first is the People's Bank of China's battle to keep USD/CNY under the 7.30 area. In addition to representing their displeasure with USD/CNY levels by printing very low

onshore fixings (7.1992 last night), yesterday it seemed as though the focus was on the funding side where 1m CNH implied yields spiked over 5% (the highest since 2018) making it more expensive to run CNH short positions. As mentioned recently, Chinese FX intervention is opaque, but another measure to support the renminbi would be cutting the required reserves on FX deposits. Brief dips in USD/CNH see the dollar offered across the board, but with Chinese authorities cutting official interest rates, we suspect any CNH gains will be limited and temporary.

Also today we see the start of the [BRICS summit in South Africa](#). Expansion tops the agenda and names in the frame we think could be the United Arab Emirates, Egypt, and Bangladesh - all of which joined the BRICS New Development Bank in 2021. It would be a massive surprise were Saudi Arabia to join the grouping - which would inevitably lead to speculation over oil being priced in non-dollar currencies and a headline that may temporarily hit the dollar.

DXY looks very comfortable within the 102.70-103.70 range.

Chris Turner

➔ EUR: Becalmed

EUR/USD continues to trade in very narrow ranges, with US Treasury yields and USD/CNH probably the main short-term drivers in thin summer markets. 1.0850-1.0930 looks to be the short-term range and we do not see a local catalyst for a breakout until tomorrow's release of the flash PMI readings for August. As to tightening expectations, the market only now prices in 20bp of rate hikes by the turn of the year - probably underestimating the chance of a 25bp ECB rate hike in September.

The Eurozone data calendar is light today. But amidst the pessimism in the Eurozone we should at least see a better monthly current account surplus reading - somewhere in the EUR10-20bn area. Remember this compares to the huge EUR35bn monthly deficits seen a year ago, when the spike in energy prices sank the euro.

Elsewhere, high US rates are keeping under pressure the high beta European currencies of Norway's krone and Sweden's krona. It seems a long time until the krona could possibly derive some support from the next Swedish Riksbank meeting (September 21st) meaning that EUR/SEK probably trades 12.00 in the interim.

Chris Turner

➔ JPY: In the intervention zone

USD/JPY is now comfortably trading in the 145-150 FX intervention zone - levels where the Bank of Japan (BoJ) sold \$70bn last September and October. It seems that Tokyo authorities are keeping their powder dry for the time being - not wanting to fight the US Treasury-yield driven rise in USD/JPY. Also arguing against FX intervention for the moment are seemingly orderly market conditions, where one month USD/JPY traded volatility remains sub 10% - compared to levels of 14-16% when the BoJ intervened last year.

In other words, FX intervention may not be imminent and a larger trigger for a JPY rally would probably be some kind of sharp risk asset correction perhaps driven by those surging US Treasury yields.

Chris Turner

PLN: Second set of economic data

Yesterday's data in Poland showed a mixed picture. [Industrial production](#) surprised with a much larger than expected drop and we expect it to remain weak in Q3 and we may see some recovery only in Q4. On the other hand, PPI fell more than expected and [wage growth was also weaker](#) than expected. In both cases the base effect plays a big role but, in the case of the labour market, there seems to be growing pressure for some easing. We'll see a second set of data today, with retail sales and construction numbers. According to our forecasts, July was yet another month of decline in goods retail sales, but the situation seems to be stabilising as lower inflation has allowed for a return of real growth in wages.

The Polish zloty weakened by almost 0.5% after the negative surprise yesterday, but higher rates continue to point to a stronger PLN. We will see today if macro data has further potential to surprise on the negative side. Otherwise, we continue to expect a rather stronger zloty due to higher rates - at least below 4.46 EUR/PLN.

Frantisek Taborsky

Authors

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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