

FX Daily: New line in the sand for the yen may be 165

Japanese authorities are allowing USD/JPY to trade above the April FX intervention levels, and previous comments from the top currency official hint the new line in the sand may be close to 165. Anyway, there is an incentive to wait for tomorrow's US PCE data. The Riksbank should not change guidance today, and there is a first US presidential debate tonight



📈 USD: Biden-Trump debate tonight

Defensive positioning has largely dominated the currency market this week, and with the exception of an inflation-boosted AUD, the US dollar is trading firmly against all of G10. In the emerging markets space, heavy jitters in carry MXN, BRL and ZAR are taking the biggest hit – although that is more the result of a rotation back to the safe-haven dollar rather than a specific unwinding of carry trades, which would have otherwise seen the yen trade stronger. On the contrary, a weaker yen remains the biggest story in FX. As we discuss in detail in the JPY section below, Japanese authorities may let USD/JPY rise further before intervening, which can offer broader support to the greenback into tomorrow's core PCE event.

Today's US calendar includes the hardly market-moving third release of first quarter GDP and PCE, while some focus will be on May durable goods orders (which are expected to decline) and jobless

claims. Despite an expected contraction in initial claims last week, the surprise stickiness in continuing claims is a trend to watch, as it may provide an early signal of cooling hiring intentions.

The dollar may stay generally supported today, unless Japanese FX intervention triggers an inversion – also consider caution ahead of the French vote on Sunday. We'll be very interested to see if and how the dollar reacts to tonight's first TV debate between President Joe Biden and Donald Trump (02:00 BST). Our baseline assumption is that Trump is the most dollar-positive candidate due to protectionism pledges, geopolitical stance and plans for lower taxes, but markets have not had a real chance to trade on the back of US political news as monetary policy dominated. Any FX action based on the perceived winner of the debate can help us calibrate the coefficients for November's market reaction function.

Francesco Pesole

📉 EUR: Waiting for a PCE lift-up

In yesterday's FX Daily we discussed how EUR/USD could have tested the 1.0670 June lows before the US core PCE event. The pair traded as low as 1.0666 in yesterday's trading, and in our view retains a general bearish bias for today's session too.

The euro remains unappealing before clarity on the French vote (mind that this may not come before the 7 July second round results), and speculative yen selling is probably fuelling a broader USD rally. The next key levels are 1.0650 and 1.0600 for EUR/USD. Those may be reached on the back of some moves after the US debate overnight, although we expect a US core PCE at 0.1% month-on-month tomorrow to send EUR/USD into the weekend closer to 1.0700 than 1.0600.

Today's eurozone calendar only includes final consumer confidence data for June, although tomorrow we'll start seeing some June inflation prints for France, Spain and Italy. The European Central Bank calendar sees speeches by Madis Muller and Peter Kazimir, both hawkish-leaning members.

Francesco Pesole

📉 JPY: Tolerance band being stretched

USD/JPY is trading at 160.40 this morning after breaking through the levels that had triggered a large-scale FX intervention in April and touching 106.87 (38-year highs) overnight. FX intervention alarms are as loud as they get, but we have to make a couple of considerations.

First, Japan's top currency official Masato Kanda had indicated in February that a 10 yen move in USD/JPY over a month was to be considered as "rapid", implicitly offering some clues on the levels for intervention. The latest moves have been described as "rapid", but not "excessive", which may be the new term for a 10 yen move in USD/JPY. In April, USD/JPY had risen from a low of 150 to a high of just below 160 over a little less than a month when Japan intervened, which is consistent with Kanda's hint. In the past 30 days, the low was 154.60, which would by the same logic place the intervention level at 164/165.

Second, having already spent USD61bn on official FX intervention and USD/JPY moving back to 160 (and over) in less than two months before the first operation, the Minister of Finance's moves must be weighed carefully. What has been clear is that FX interventions are a temporary measure to curb volatility, not a solution to a structurally oversold currency. Ultimately, Japanese officials

know US macro and the Fed matter more than anything else for the yen, and there may be an incentive to wait until tomorrow's core PCE before intervening again. Should US data fuel more USD strength, then intervention would become almost inevitable – but with the new line in the sand potentially closer to 165, as mentioned. We may well see more verbal intervention and potentially a rate check (the latter will be evident in price action) before any new round of FX intervention is deployed.

Finally, the role of Bank of Japan policy in all this must not be underestimated. There is a stronger case now for the BoJ to raise rates in July to support the currency, even if that is not explicitly considered as a motive for policy action. Still, with large wage rises coming through, and inflation expectations this morning rising to the highest in 20 years, we think there is enough backing from an price-projection perspective to see another two rate raises this year in Japan. That probably bodes well for a gradual recovery in a scenario where the Fed is moving towards easing, but in the near term, it's all about urgent care more than long-term therapy for the yen.

Francesco Pesole

SEK: Riksbank cautious hold this morning

Sweden's central bank announces policy this morning and we expect a hold, in line with consensus and market expectations. As discussed in our [preview](#), Riksbank Governor Erik Thedeen recently said the “threshold is very high for a rate cut” in June after the May rate cut was followed by some higher-than-expected inflation and growth numbers.

We believe the Riksbank will not tweak its current guidance for two more rate cuts in the second half of the year at this meeting. Despite the disinflation process slowing, the activity/labour picture in Sweden remains somewhat concerning and still argues for rate cuts down the road. Our call is for three more rate decreases this year but we doubt this will already be indicated in today's guidance – also taking the ECB's more cautious stance on easing into consideration.

EUR/SEK has rebounded in the past couple of weeks to 11.30 after reaching an 11.15 low on 12 June. We had felt that a gradual appreciation in the pair was on the cards given soft European sentiment, but the idiosyncratic curbs to the EUR due to political risks are helping put a cap, and today's cautious hold by the Riksbank should not cause any major selloffs in SEK, in our view. Markets are pricing in 55bp of easing by November in Sweden, and there is a chance of a small hawkish repricing helping SEK today. What matters for the Riksbank is that SEK is now trading around 4% stronger on a trade-weighted basis compare to when they cut in May, which allows greater room for easing.

Our view is neutral on EUR/SEK into the summer, as a generalised positive environment for high-beta currencies may be countered by Riksbank dovishness and a EUR-specific recovery. However, the risks are skewed to the downside for EUR/SEK as the risk environment could have a greater weighting, if anything.

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