

FX Daily: No major implications from July UK election

We don't expect the surprise announcement of a July election in the UK to change the narrative for sterling, which we deem vulnerable against the euro as markets may have priced out too much BoE easing. After some hawkish Fed minutes, EUR/USD may recover some ground on PMI divergence today, and ECB wage data will be watched closely too



British PM Rishi Sunak announcing a July general election yesterday in Downing Street, London

📉 USD: Minutes boost may not last

The 1 May FOMC minutes, released yesterday, surprised on the hawkish side and bolstered the dollar. While the general view was that policy was “well positioned”, many members were open to more hikes if needed. Incidentally, “many” participants questioned whether policy was restrictive enough.

All this must obviously be weighted for the hot March inflation and jobs market prints. We have heard from some hawkish members (like Neel Kashkari and Chris Waller) about lingering concerns on inflation even after the more encouraging April data, but it is reasonable to expect the general FOMC sentiment to have turned generally less hawkish since the May meeting.

Today, we see risks that the dollar will give up some of its gains as PMIs are released in the US and eurozone. Given indications from other surveys, we see some possibility for eurozone figures to paint a relatively more encouraging picture than in the US, and Nvidia's solid results after yesterday's market's close may also have some positive impact on risk sentiment today. New home sales, the Kansas City Fed Manufacturing Activity survey and jobless claims complete the US calendar today.

DXY may fail to trade sustainably above 105.0 for now, even though we don't rule out further gradual appreciation of the dollar into the 31 May US PCE release.

Francesco Pesole

EUR: Important releases in the eurozone today

Eurozone surveys have generally pointed at improving sentiment of late, and today's PMIs will be closely watched to gauge whether the growth outlook has continued to rebound.

German PMIs will be released before the eurozone-wide figures this morning, and are expected to show a more gradual improvement in both manufacturing and services. The manufacturing sector, however, remains deep into negative territory, both in Germany (now at 42.5) and in the eurozone as a whole (now at 45.7). Consensus for eurozone PMIs is also for another uptick, with the composite index seen rising back to 52.0 and almost entirely erasing one year of sluggish prints.

The euro has shown a tendency to move on growth differentials when these comparable surveys are released. As mentioned above, we see some upside risks for EUR/USD today as eurozone data may look brighter than in the US.

Another important release today will be the first quarter European Central Bank negotiated wage index. Remember that this was seen as the make-or-break data point for a June rate cut some months ago; now, ECB communication leaves little room to doubt a June move. At the same time, there is a major uncertainty around the path for monetary policy beyond June, and German wage figures published yesterday were stronger than expected. For today's release, expectations are for another decline from the fourth quarter of 2023's 4.5% quarter-on-quarter. That can definitely move the needle for ECB pricing beyond June, and the impact could get in the mix with PMIs.

Francesco Pesole

GBP: All about the BoE/Fed, not about elections

UK Prime Minister Rishi Sunak announced the UK general election will be held on 4 July, a surprise move against widespread expectations for a vote in the autumn. GBP/USD 2-month implied volatility jumped around 20bp on the news, but at 6.20 it remains contained compared to the April levels. The pound also seems to have been only very lightly impacted by the news.

All of this is not surprising. Despite the unanticipated move by Sunak, markets are likely trusting the opinion polls that currently put Labour well ahead of the ruling Conservative Party. That advantage means Labour leader Keir Starmer is expected to be able to govern even without an absolute majority in parliament. Crucially, many of the volatility-inducing events that had been associated with UK politics in previous years (UK-EU trade relationships, unfunded budget spending, the Scottish referendum) all seem to be rather marginal risks now. We also doubt the election will have any implications for the Bank of England's policy plans and timing of rate cuts.

Surely, as we enter what will be a rather short campaign, sterling can be impacted by some pre-election pledges by Labour leaders (unless the polls show a major shift in favour of the Tories). Still, that may not be more than some noise in an overall direction for the pound, which remains determined by UK data, consequent BoE policy, and Federal Reserve expectations.

The higher-than-expected services inflation in the UK was a much more important event than the election announcement from a market perspective yesterday. The Sonia curve now only prices in 12bp of easing by August from the pre-CPI 25bp, and only 37bp by year-end. These expectations look too hawkish in our view, as we still see a cut in August and 75bp of easing by year-end. Accordingly, we stick to our bullish call on EUR/GBP despite the pair now eyeing the key 0.8500 support, and do not see reasons to adjust our views based on an earlier UK election.

Francesco Pesole

➔ CEE: The first signs of a sell-off

The series of monthly data from the Polish economy continues today. Yesterday, manufacturing surprised to the upside for April, while wages and PPI grew more slowly than expected. Today we will see retail sales in Poland, where we expect faster growth than consensus.

However, the main highlight of the day will be the Turkish central bank meeting. In line with expectations, we forecast that rates will remain unchanged at 50%. The central bank is expected to repeat its tightening bias, opening the door for further rate hikes if inflation shows the need for it in the coming months.

FX yesterday in the CEE region saw the first signs of a correction from the previous three-week rally. However, some losses were erased later yesterday. This shows that the CEE region remains at strength, but at the same time, the rally is hitting its limits. As we have mentioned several times before, the current move is purely based on global conditions in our view and completely disconnected FX from the local story over the last three weeks. Rates in our view point to weaker FX across the CEE region. For now, it is hard to say when this relationship will resume and when FX will weaken. However, our preference here remains unchanged. While we see PLN as the most resilient sell-off case, on the opposite side we see HUF as the most disconnected from the trajectory implied by rates.

Frantisek Taborsky

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

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

chris.turner@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.