

FX Daily: People's Bank of China issues a fixing protest

The dollar is slightly softer today as the People's Bank of China (PBoC) seemed to issue a protest against recent renminbi weakness with a stronger fixing. Additional stimulus measures from China are also helping the commodity complex. Yet US yields remain at their highs and dollar dips should be limited before tomorrow's speech from Fed Chair Powell



➔ USD: Watch out for initial claims and Fed speakers today

The dollar is slightly softer today and risk sentiment is marginally better. Activities by Chinese authorities probably account for both of these developments but are not seen as game-changing. On the dollar side, the recent upside breakout in USD/CNY had hit emerging currencies and contributed to recent dollar strength. The fear was that the PBoC was going to allow another 6% fall in the renminbi, similar to April/May this year. However, for the first time in recent weeks, the PBoC has fixed the renminbi stronger than model-based estimates had suggested – fixing USD/CNY at 6.8536 versus 6.8635 from the models. The PBOC typically uses fixings to direct market

sentiment and today's message seems to be that the renminbi might have fallen too far, too fast.

Additionally, China has announced new fiscal stimulus measures (largely on the infrastructure side) worth around CNY1trn. Yet this is not particularly large and looks unlikely to turn around the sentiment on China which is currently weighed by its zero-Covid policy and unwinding the excesses of the property sector.

News from China may be enough to slow dollar strength today but looks unlikely to reverse core trends of higher energy prices weighing on the importers in Europe and Asia, plus the Fed having unfinished business with inflation. On this latter subject, today sees a raft of Fed speakers before tomorrow's main event of the week – Fed Chair Jerome Powell's keynote speech on the economic outlook. What impact could he have on markets? Well, US yields have firmed back up this week and our colleagues in the rates strategy department have made the [good point](#) that market-based inflation expectations are rising even as rates are going higher – suggesting the Fed will be in no mood to soften its stance. The hawkish Fed should keep the dollar supported on dips.

In addition to Fed speakers today, we should see a modest upward revision to US 2Q GDP data and the weekly initial claims data. Buy-side surveys have suggested that it would take initial jobless claims moving above 300k (now 250k) to spark a Fed pivot. Given heavy long dollar positioning, the FX market does seem very sensitive to any softer than expected US data, hence the need to watch initial claims today.

What does this all mean for DXY? 108.10/15 looks important intra-day support and should determine whether DXY needs a correction back to the 107.00 area. We remain bullish on the dollar on the back of the Fed and the energy story, but heavy positioning is probably the biggest risk to the dollar right now.

Chris Turner

➔ EUR: German IFO and ECB minutes in focus

EUR/USD is enjoying the slightly softer dollar environment and re-challenging parity. 1.0015/20 looks key intra-day resistance. Above there, the risk is of a short squeeze all the way to 1.0135. Determining whether we get that short squeeze today will be the US data (above), the August German IFO, and the release of the minutes of the July ECB minutes in which it hiked 50bp.

Typically the ECB minutes are not a market mover, but today could shed light on whether the central bank wanted to cram in some hikes while it could. The market currently prices 57bp hikes at the 8 September meeting and 125bp by year-end.

Notably, yield spreads have been moving in favour of EUR/USD this week (as UK rates have dragged eurozone rates higher more quickly than those of the US). Conditions could be ripe for a short squeeze. But major challenges from the gas crisis and the Fed remaining hawkish suggest EUR/USD rallies may stall in the 1.01/1.02 area this month.

Chris Turner

➔ GBP: Gas drags Bank of England pricing around

Surging gas prices look to be dragging Bank of England (BoE) pricing around, where markets now price 170bp of BoE tightening by year-end. This gas story looks here to stay for the next few

months, with one of the fresh risks being whether the US hurricane season disrupts US gas production and LNG exports.

With the market long dollars, Cable is at risk of a short squeeze. We see 1.1880 as key intra-day resistance here above which we could be looking at a retest of 1.20. For EUR/GBP we would still favour the 0.8400 area as higher GBP rates force foreign holders of UK Gilts to lower rolling forward hedge ratios.

Chris Turner

CEE: All eyes on the forint, again

Regional currencies are showing the first signs of relief, but we think it is too early to announce the end of the sell-off. Although the Polish zloty has stabilised after a week of weakness and the forint has shown rapid appreciation, gas prices are testing new highs and Friday's Jackson Hole symposium may once again return support to the US dollar.

For the Polish zloty, we see a sideways move at the moment and a wait-and-see approach for further global developments. Today, however, all attention will be back on the forint and the National Bank of Hungary (NBH). The central bank has its weekly meeting scheduled for today, but like last week, we expect the one-week deposit rate to remain unchanged. Yesterday's move has brought some calm to the FX market, plus the NBH is scheduled to hold a regular monetary policy meeting on Tuesday next week. Thus, in our view, the NBH is saving its ammunition for the full meeting and does not want to risk a shot without effect, [taking a lesson from the July sell-off](#).

On the other hand, the market may still have some expectations that we think will not be met today, which again might not bring good news for the forint. Elsewhere, we could see some positive headlines regarding the negotiations between the Hungarian government and the European Commission. However, only from the Hungarian side, which leaves us cautious about the further development of this story. So overall, a move back towards 415 EUR/HUF is not out of the question over the coming days and we will see what the NBH reaction will be next week. Still, the forint is the only currency in the region currently supported by a rising interest rate differential and we should see a HUF rally back below EUR/HUF 400 in the case of positive news from the European Commission. However, this is certainly not a matter for the next few days and the forint will still have a tough time.

Frantisek Taborsky

Author

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

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.