

FX Daily: Powell's tough talk powers dollar rally

Despite two dissenting votes, the Fed delivered a broadly hawkish hold, with Chair Powell remaining firm on his inflation call and forcing markets to trim September cut bets. The dollar's rally may have a bit more to run as today's core PCE figures may come in above consensus and tomorrow's jobs figures prove good enough to endorse the Fed's prolonged pause



Fed Chair Jerome Powell speaking at the press conference on Wednesday

USD: Dollar rally can go a bit further

The dollar continued to appreciate in line with our call, as GDP data came in stronger than expected and the Fed [gave no hints of bending to Trump's pressure](#).

While the FOMC acknowledged the economy is slowing and two members – Bowman and Waller – voted (as expected) for a cut, Chair Powell's press conference was hawkish. He reiterated expectations for a short-lived inflationary impact and said a modestly restrictive policy was appropriate. He seemed to put himself on a collision course with President Trump by claiming the Fed was looking through inflation by not hiking. The result has been a selloff in front-end Treasuries, with market pricing for September falling from 16bp to 11bp. The dollar extended its

rally.

Whilst tempting, we are not calling for the end of this dollar run just yet, primarily because today's core PCE and tomorrow's jobs figures (Powell stressed the importance of the unemployment rate yesterday) can lead to even further hawkish repricing in the USD curve, keeping the dollar bid.

Based on the core PCE deflator QoQ annualised rate of 2.54% in yesterday's GDP report, assuming no change to the history (0.14% MoM in April and 0.18% MoM in May), today's June core PCE deflator should be 0.46%MoM, well above the 0.3% MoM consensus forecast. There is a tangible risk that revisions still result in a 0.3% MoM print today, but risks are clearly on the upside. Another data point worth noting is jobless claims, which have recently caught our attention after an unexpected six-week streak of declines. That's the longest run since August-September 2022, and may be contributing to expectations of a resilient labour market.

Elsewhere, the Bank of Japan held its policy rate steady at 0.5%, but surprised markets by sharply raising its inflation forecast for FY2025 to 2.7%, up from 2.2%. This hawkish tilt signals growing confidence in sustained price pressures, especially from food costs, and hints at a potential rate hike on the horizon. However, policymakers also flagged concerns about a possible economic slowdown, suggesting any tightening will remain cautious and data-dependent.

Francesco Pesole

📉 EUR: Staying fragile

Eurozone second-quarter growth was marginally better than expected, but at 0.1% QoQ it still proved unsupportive for the euro, even when accounting for the tariff distortions. If the first leg of the EUR/USD correction was driven by the grim growth prospects for the eurozone after the EU-US trade deal, the drop to 1.14 was led by the Fed's hawkish repricing. In our view, risks remain on the downside for EUR/USD, even though positioning is now looking considerably less stretched after the squeeze of dollar shorts since the start of the week.

We don't think the eurozone data will help the euro much. Flash inflation estimates for July will be published this morning in France, Germany and Italy, and there seems to be limited scope for any upside surprise. Markets rushed to price out an ECB cut (only 15bp priced in by year-end) after last week's central bank meeting, but low inflation paired with soft growth expectations can lead to a dovish rethink. Some comments by ECB members could accelerate that process, but August is generally a rather quiet period for ECB speeches.

We think an extension of the EUR/USD drop to 1.130 remains possible – that level acted as a temporary anchor in parts of April and May. Our view is that by the end of September, we'll be back at 1.150, but there may well be more downside exploration before then.

Francesco Pesole

📉 PLN: Key moment for future monetary policy direction

July inflation in Poland will be published today, which we expect to fall from 4.1% to 2.8%. That's now even the market consensus, but range estimates go from 2.5% to 3.1%. The base effect from last year and changes in energy prices, which were partially unfrozen in 2024 and triggered the price increase, play a big role here. Regardless of the specific number today, inflation should see a significant decline, allowing for further monetary easing by the National Bank of Poland.

For the rest of the year, inflation should be below 3.0%, which we think coupled with a weaker-than-expected economy gives a chance for a 50bp rate cut in September and another 25bp in November with 4.25% at year-end, and another 75bp next year. We will see the August print and a few more numbers from the economy before the September meeting, so the story here remains open, but we are on the dovish side.

This story has been behind our bearish view on PLN for several weeks and the current sell-off in EUR has exposed this weakness in the Polish story over the last three days. Yesterday, we saw some stabilisation in EUR/PLN in the 4.270-280 range, which seems like a fair level for now. But as we mentioned earlier, today's inflation numbers are a key moment for the NBP's next direction. Market pricing is not far from our forecast but the priced terminal rate still has roughly 25bp room to go lower, and if inflation confirms low levels, the market may frontload rate cuts. Thus, we believe there is more room for a push for a weaker PLN along with a weaker economy and we may see more movement towards the 4.290-300 range.

Frantisek Taborsky

CZK: CNB is exhausting its hawkish potential

The Czech National Bank's blackout period starts on Thursday and so far we've seen two interviews from Deputy Governor Eva Zamrazilova and board member Jakub Seidler. Both sent a clear signal that rate cuts are not on the table and the cutting cycle is basically closed, or the room for cuts is very limited. Both are in line with our story that rate cuts are over, and the CNB is the first in the CEE region to end the cutting cycle. The central bank's decision next week will not be a surprise. At the same time, we should see a new forecast to support this hawkish report.

So, overall conditions remain supportive for the CZK, but EUR/CZK at 24.600 probably already has limited downside potential. We remain bullish on CZK, as the only currency in the region we like, but the market has essentially priced out all rate cuts while the positioning squeeze has pulled pricing significantly higher. This leaves the CNB with little to support the hawkish message further, which limits the potential for FX. We expect EUR/CZK to grind lower, but the pace will be very slow and may take more time to get to 24.500.

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.