

FX Daily: Quiet start to an intense week

The Independence Day holiday in the US means the week should start quietly in markets, but US data will soon attract the market's attention again now that a July Fed rate hike is a consensus view and there is also speculation about a move in September. We think the dollar can find some support this week. In the CEE region, central banks in Romania and Poland meet



➔ USD: Data in focus amid thin holiday volumes

The month of June saw the dollar weaken against all G10 currencies except for the Japanese yen, but the greenback has been quite supported in the past few days. Some hawkish comments by Federal Reserve Chair Jay Powell at the Sintra central bank symposium last week have helped markets to close the gap with the FOMC's dot plot projections: the Fed funds futures curve currently prices in 34bp of tightening to the peak, a 10bp increase compared to a week ago. Crucially, markets are now actively considering the option of two rate hikes.

This week should start quite quietly with the Independence Day holiday meaning US markets should have reduced flows until tomorrow. Still, US data activity will peak as markets assess the probability of a September hike now that a July increase appears to be the consensus view.

Today, all eyes will be on the ISM manufacturing index, although a greater focus will be on the

services survey released on Thursday (the May print dropped more than expected). On Friday, jobs figures for the month of June will be published: after the latest comments by Powell, it will probably take a very weak reading to put a July hike under discussion.

On the Fed side, the first event to note is on Wednesday, when the June FOMC minutes are released. The dollar can probably find some more support this week as markets see more reasons in the data and the minutes to gradually align with the more hawkish dot plot projections.

Francesco Pesole

➔ EUR: Core inflation issues continue for the ECB

The decrease in headline inflation in June was likely insufficient for the European Central Bank given the tick-up in core prices (from 5.3% to 5.4% for the whole euro area). With President Christine Lagarde having pre-committed to a July hike, the discussion is currently around a move in September. Markets are fully pricing in two final hikes, but not by September. Either way, the stickiness in core inflation will give the ECB hawks a chance to reinforce their message.

With ECB members having had the opportunity to clarify their rhetoric at the Sintra symposium last week, this week's speakers may not have a very strong impact on the euro, even though markets will be interested in comments following the inflation report for June.

It seems likely that the USD leg will drive most of the EUR/USD moves this week, especially once US data starts to come in. There is some room for the pair to decline modestly on the back of some dollar strength, although a big drop below 1.0800 may be premature.

Francesco Pesole

➔ GBP: Pricing remains volatile

Pricing for Bank of England tightening remains quite volatile. Markets are pricing in 130bp of BoE hikes to the peak at the moment, which clearly sets the bar quite high for hawkish surprises for the MPC's communication, but also shows how hawkish-prone markets are given the UK inflation situation.

This week will offer little input from the data side in the UK, and the list of BoE speakers is also quite short. Cable may be primarily driven by the dollar leg, and faces some risk of a correction. EUR/GBP may struggle to find very sustainable support beyond current levels.

Francesco Pesole

⬆️ CEE: Busy week should lead to slightly stronger FX

The region has a busy week ahead. PMI numbers across CEE countries will be released today. In Poland and the Czech Republic, we expect industrial sentiment to deteriorate again more than the market expects. Later today, we will see the Czech Republic's state budget result for June, which should finally show a reduction in the record deficit. The National Bank of Romania will meet on Wednesday and we expect interest rates to be stable in line with the market. Then on Thursday, data from industry, retail sales and the state budget in Hungary will be published. In the case of industry, we expect a higher decline than the market forecasts. Later, we will see a decision from the National Bank of Poland. Rates remain unchanged, but this time a new forecast will be

published. Given the lower inflation last week, we can expect a dovish tone pointing to rate cuts after the summer months. June inflation in Hungary will be published on Friday. We expect a further decline from 21.5% to 19.9% year-on-year due to a favourable base effect and a fall in food, durables and energy prices. Also on Friday, Czech industrial data will be published and S&P will release a rating review in Hungary. Given the downgrade to BBB- this January, we do not expect any changes this time.

In the FX market, the region should benefit today with a delay from Friday's upward movement of EUR/USD as well as the positive sentiment in Europe from the end of last week. On the other hand, the bad news for the Hungarian forint and the Czech koruna is the renewed rise in gas prices, which is once again becoming a strong player in this part of the region. A dovish NBP in the second half of the week should not come as a surprise to the market and therefore we do not expect much pain for the Polish Zloty. So overall, we are slightly bullish on FX in the CEE region this week. If gas prices calm down again, EUR/CZK should return below 23.70 and EUR/HUF to 370 EUR/HUF. EUR/PLN should stay below 4.450.

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.