FX Daily: Silent end to a loud week

The economic calendar does not offer much today. EUR/USD is stretching to the lowest levels since mid-July, not far from parity, which will not please the European Central Bank. The sell-off in Central and Eastern Europe continues. We think the Polish zloty is the next victim, which will not be helped by domestic data

It seems that the ECB has a problem with the weaker euro – judging by an interview with Isabel Schnabel yesterday

USD: Nudging higher

The dollar continues to retrace the mid-July to mid-August sell-off. It is hard to pin down the exact reason for dollar strength – after all, US yields have softened a little over recent sessions. However, the move suits our generally positive stance on the dollar at a time when European and Asian growth prospects remain challenged.

There is very little on the US data calendar today (the Fed's Tom Barkin speaks at 1500CET). Barring some very poor pieces of US data (next week's data calendar looks second-tier) or some surprising recovery stories overseas, we would expect the dollar to consolidate near the recent highs.

DXY broke the 107.50 level, however getting to 108.00 should be significantly more difficult.

Chris Turner

EUR: Focus on the eurozone current account data

It does not normally receive a lot of attention and probably will not move markets today, but the release of eurozone current account data for June should be a reminder of the eurozone's dwindling external surplus. The June monthly data might actually pick up from May's EUR4.5bn deficit – largely on the back of Germany's better trade surplus – but the 12-month trend to lower surpluses should be clear. And this is a big reason why the trade-weighted euro has fallen around 4% this year.

It also seems that the European Central Bank does have a problem with the weaker euro – judging by Isabel Schnabel's interview with Reuters yesterday. But to drive EUR/USD higher – the most relevant euro pair in an energy crisis – the ECB is going to have to turn a lot more hawkish. That is a tough job with a recession around the corner.

Expect EUR/USD to stay offered in a 1.0100-1.0200 range on a quiet Friday.

Chris Turner

GBP: Retail challenges

Consumer confidence in the UK has fallen to a record low as concerns about a recession increase and inflation squeezes household finances. At least July retail sales brought a glimmer of hope. But it is still not helping to change the cost-of-living crisis narrative. It looks unlikely to dent expectations that the Bank of England will be hiking 50bp on 15 September. Actually, the market now prices a 56bp hike on that date. It is fair to say sterling remains fragile. However, it looks more vulnerable versus the dollar, where GBP/USD can trade down to the 1.1935/50 area.

Chris Turner

CEE: Polish data won't improve the zloty's mood

The regional calendar today offers only Polish data: industrial production, labour market data and industrial producer prices. After the negative surprise of this week's GDP data, we will see other pieces of the puzzle for July. However, good news is unlikely to come. Industrial production is expected to fall further in month-on-month terms, and we expect wage growth to be lower than market expectations. PPI should be lower than market expectations as well but still above a strong 20% year-on-year in our view.

On the FX front, CEE currencies keep tracking EUR/USD and yesterday's move again does not signal good news for the end of the week. Our view hasn't changed much in the last few days. The Polish zloty finally broke above 4.720 EUR/PLN and we think it has room for further losses towards the 4.735-4.740 range if EUR/USD does not erase its losses. Added to this is the further rise in gas prices, which is not helping the Hungarian forint either. However, unlike the Polish zloty, it has more favourable market conditions in our view, including fresh support from rising rates. According to our estimates, the forint should be around EUR/HUF 400. However, negative sentiment is likely to weigh on the forint for at least a few more days. In line with our expectations, the Czech koruna has returned to the Czech National Bank intervention band of 24.60-24.70 EUR/CZK. We see little reason for the koruna to break out of this range in the coming days and we can expect some central bank activity on the market after almost two weeks of silence.

Frantisek Taborsky

Authors

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com