

## FX Daily: Someone is still hiking

The July FOMC minutes signalled clear openness to more tightening, but market pricing did not move a lot. The FX markets seemed more sensitive to that, and the dollar is enjoying some good momentum. Meanwhile, Norges Bank should hike by 25bp today, and this may not even be their last move; we still see NOK gains ahead



We have published a report to discuss the [expansion of BRICS and the potential implications for de-dollarisation](#)

### ➔ USD: Hawkish minutes, reluctant pricing

The minutes of July's FOMC policy meeting [released yesterday](#) showed the majority of members kept seeing upside risks to the inflation outlook and left the door open for more tightening. That mirrors what was previously indicated in the dot plot projections, but we think that the encouraging developments on the disinflation side mean the Fed won't have to hike again and will instead opt for a long pause before cutting in 2024.

The dollar found some support after the release of the minutes, although the Fed Funds Futures

did not move significantly, still pricing in a 30% probability of another Fed hike. The reluctance to price in a greater probability is keeping the dollar's gains limited.

On the data side, our US economist debriefs yesterday's set of releases [here](#). Mortgage rates are hitting fresh highs, but that is failing to trigger the kind of house price correction we see elsewhere in the world, as crushed supply keeps prices elevated. Ultimately, Fed rate cuts next year could be the trigger for a real estate price correction should that allow a rebound in supply. On the industrial production side, a strong read for July contradicted the ISM manufacturing index, which had suggested the sector has been contracting for nine consecutive months.

Today, the jobless claims will be watched closely after a surprise jump last week, and the calendar also includes the Philadelphia Fed Business Outlook for August and July's Leading Index. The dollar is enjoying some modest bullish momentum – also helped by more worrying news from China's real estate sector – but it may be lacking a clear catalyst to break above 104.00 (DXY) before the end of the week.

Francesco Pesole

## ➔ EUR: Lack of strong support

EUR/USD appears stuck in a relatively low volatility environment, despite feeling some pressure. The swings in the 2-year swap rate differential are not proving dramatically impactful on the pair, but the retightening of the spread from the 140bp area to the 134bp is probably offering a bit of support.

Eurozone data continued to do very little to help a rapid turnaround in the euro's softish momentum, though. Yesterday, 2Q GDP growth was confirmed at 0.3% QoQ and employment figures at 0.2% QoQ. With forward-looking indicators pointing at an economic slowdown in key parts of the euro area, a EUR/USD rally later this year (which is still our base case) should rely primarily on a decreasing attractiveness of the dollar rather than on an idiosyncratic EUR boom.

It may be yet another rather quiet day in FX today, and barring a major surprise on the US data side – and considering the eurozone calendar is quite light – EUR/USD should keep hovering around 1.0850/1.0900.

Francesco Pesole

## ➔ GBP: EUR/GBP ready to test the lows

Higher than expected wage and inflation numbers pushed the Sonia curve to pricing-in 6.0% rates for the first time in a month. On the inflation side, our UK economist notes [in this article](#) how the surprise pick-up in service inflation was primarily due to rents, a factor that should not meet the Bank of England's definition of "persistent".

While a 25bp September hike should be a done deal, we still think a November move is an open question, given indications of abating price pressures in other parts of the economy. Still, the pound is now enjoying a post-repricing strength that looks unlikely to abate rapidly, given the lack of market-moving data and BoE speakers. EUR/GBP looks on track to retest the 0.8505 July lows, also given the lack of strong idiosyncratic defence for the euro.

Francesco Pesole

## 📈 NOK: 25bp by Norges Bank today

We expect Norges Bank to hike by 25bp today, in line with previous guidance. The previous hike was a larger one (50bp), but the trade-weighted strengthening in the krone and some improvements on the inflation side will allow policymakers to hike by a smaller amount today.

Markets are pricing in a peak in Norwegian rates after today's 25bp hike, but we feel they are underestimating the chances of another hike in September. Much will depend on the krone's performance: we are positive on NOK in the medium term but cannot exclude some risk-off corrections to generate some "scares" for the central bank and trigger another rate hike.

Anyway, today is an interim meeting with no new rate projections. We cannot exclude Norges Bank will hint at openness to more tightening, and we see upside risks for NOK anyway, given the rather flat market pricing.

Francesco Pesole

### Authors

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@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 <http://www.ing.com>.