

FX Daily: Staring contest back in the streets

While the US is sticking to good old inflation spotting, Europe is preparing for the next round of the gas story. EUR/USD will remain under US domination, but the Central and Eastern European region is more likely to dance according to geopolitical squabbles



➔ USD: CPI to cement the cycle

It has been a trendless week for the dollar so far, with very little follow-through from Friday's jobs-inspired rally. Today sees the biggest data event risk of the week – and probably of the month. US July CPI is expected to soften a little on a headline basis but nudge up on a core basis to just above 6% year-on-year.

Stubbornly high core inflation should support the Federal Reserve's position that its work is far from done. It should also support pricing in the US money market curve that sees the policy rate taken around 125bp higher in this cycle. Barring a massive upside surprise that can demand an extra 25-50bp or so priced into the back end of the curve (and sending the dollar a leg higher), we expect the inflation data to cement current tightening expectations and keep the dollar bid near the high.

Yet it is a long time until the next FOMC meeting on 21 September and barring any shocks, we feel that the dollar holding gains against the low yielders such as the euro and yen should not preclude a little more interest in some emerging high yield currencies.

105.70-107.00 are now the short-term parameters for DXY.

Chris Turner

➔ EUR: Too many challenges

EUR/USD continues to languish near the lows and there does not seem a compelling case to buy it. As we discussed [recently](#), medium valuation considerations do not show it as particularly undervalued. And the larger geopolitical event risks leave Europe more exposed than North America.

There is no European data of note today and EUR/USD will therefore be bounced around by the US CPI print. Declining levels of implied volatility suggest investors may be in no mood to chase EUR/USD out of a 1.0100-1.0300 range near term.

Chris Turner

⬇ CEE: The European gas story has reached the next level

Yesterday's news about the halt of gas supplies from Russia to Central and Eastern Europe has not caused much damage so far. Of course, further developments, especially the length of the supply stoppage, will be key. Purely in terms of energy dependence, Hungary is the most exposed to problems with supplies from Russia, followed by the Czech Republic. At the same time, the statistics on gas in storage are negative for Hungary. For the time being, both countries report that they have enough gas in reserve to last several weeks and keep the economy running as normal. However, no one will want to test what the reality is.

In the FX market, so far, the only visible reaction within CEE has been in the Hungarian forint, which we previously identified as the most vulnerable. Of course, in the coming days, this story will be in focus and drive the direction of FX markets. We see strong potential here to trigger difficult times for the region.

Frantisek Taborsky

⬆ CZK: Tricky inflation print to test CNB pain threshold

After [Poland](#) and [Hungary](#), July inflation will be published today in the Czech Republic, and we think it will be the trickiest reading so far this year. July will bring a third round of energy price hikes and this time, the month-on-month jump should be a record. However, the problem is the uncertain ratio of fix/float contracts and the approach of the statistical office to such a massive jump in energy suppliers' price lists. Overall, we feel comfortable on the high side of estimates and believe the market may be underestimating these price changes. Thus, we expect inflation to jump from 17.2% to 18.5% today, while the market is expecting 17.9%. The central bank expects 18.8% in its new forecast, but even a higher number cannot be ruled out at this point. For the Czech National Bank, however, we believe the pain threshold is high given that any surprise will come from energy prices, which the new board places on the cost side, thus out of the central bank's reach.

From a market perspective, just a few days ago, we would have expected the news to fuel hawkish expectations that the central bank might react anyway. However, yesterday's 20bp jump in the short end of the curve, presumably in preparation for today's inflation, and profit-taking, should limit that market reaction. On the FX front, the market remains safely away from the 24.60-24.70 level after last week's CNB meeting and for now is vainly gathering strength for another stage of attack against the central bank, which has been defending the koruna.

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

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>.