

## FX Daily: The return of the Magnificent Seven

In very quiet FX markets, one theme is whether US tech stocks can return to the highs after a rocky month. Alphabet and Tesla report after the bell today and decent earnings should stand to keep benign FX conditions in play. In emerging markets today, we have rate meetings in Hungary and Turkey. We are a little bearish on the forint



The Magnificent Seven tech stocks – of which Tesla is one – have lost close to 8% this month. Elon Musk is Tesla's chief executive

### ➔ USD: Equity recovery is keeping volatility low

Away from US politics, FX markets remain very subdued. Volatility is low and the temptation will be to rotate back into carry even if there are risks associated with the preferred funding currency (Japanese yen) or the preferred target currency (Mexican peso).

Helping to keep volatility low is a dry spell for macro and central bank calendars, plus some modest recovery in global equity markets. On a quiet day, we think investors will take a keen interest in US earnings releases, where tonight we see two of the Magnificent Seven (a basket of seven tech stocks) report second-quarter results. The consensus seems to be for encouraging figures later, with surveys suggesting investors are expecting earnings results (not necessarily lower rates from the Fed) to drive the next leg in the equity rally. On a total return basis, the Magnificent Seven has lost close to 8% this month. Tonight's release therefore will have a big say

in whether the rally resumes.

How does this all relate to FX? Higher US equities normally keep traded FX volatility levels low and support the carry trade. Previously, this would have been dollar negative, but dollar deposit rates at 5.38% for one-week money means that the dollar is an expensive sell. These conditions do mean, however, that there is a large burden on the Bank of Japan to deliver a rate hike and a sizable reduction in Japanese government bond purchases on 31 July, otherwise USD/JPY will just float higher again.

The US calendar is pretty bare today and there doesn't seem to be a strong reason to take DXY out of a 104.00-104.50 range.

*Chris Turner*

## ➔ EUR: Stalling recovery?

As we mentioned yesterday, the story this week in the eurozone could be soft survey data that supports the ECB's contention that short-term economic risks lie to the downside. This may well be most evident in tomorrow's release of the flash PMIs for July. Today, however, we will get some consumer confidence data for July. The Dutch reading has already slipped back a little and the eurozone reading is released at 1600 CET. Some further improvement is expected in the eurozone aggregate index, but a softer reading suggests fading hopes of positive real wage growth leading to higher consumption. Perhaps consumers are saving these real wage gains after all?

EUR/USD is trading in very narrow ranges at just under 1.09. Traded volatility is exceptionally low – e.g. three-month volatility is just 5.3% – and the market has concluded there is no trend here. Probably the next big input here (after Friday's core PCE figure) is the Fed meeting next Wednesday. That is probably a negative risk to the dollar.

Apart from consumer confidence later in the day, the only noteworthy event on the eurozone calendar is a speech from ECB Chief Economist Philip Lane at 0900 CET. However, do not expect him to provide many clues of a September ECB rate cut, since the ECB has [shifted away](#) from forward guidance.

*Chris Turner*

## ⬇️ HUF: NBH tempted to cut rates again

Today's meeting of the National Bank of Hungary (NBH) is the main event of the week in the CEE region. Our economists expect rates to remain unchanged, but as we discuss in this [NBH preview](#), the odds of unchanged rates versus a 25bp rate cut are almost even. Of course, the downside surprise in inflation, the strongest HUF since late May, and the dovish shift in the global story will make it tempting for the central bank to cut rates. In any case, in this context, our economists have already revised the rate path from flat rates to two 25bp cuts this year.

So, regardless of today's decision, we expect dovish rhetoric despite the central bank trying to paint a cautious approach. We see this in market pricing and surveys which are also rather balanced but still favour a 25bp rate cut today. As always we should see a decision at 1400 local time today and a press conference an hour later.

Having said that, in any case, we expect dovish rhetoric today. Given the relatively strong HUF

levels, this rhetoric should be negative for the currency. Rates pricing has moved massively down the curve over the past three weeks, most notably across CEE peers, and for some time now the narrower interest rate differential has pointed to a weaker HUF. So today's meeting could be a trigger and we are bearish on HUF here. Usually, the FX reaction after the NBH decision doesn't come right away, but as we have been pointing out here HUF seems overvalued for some time, and today may show its true value.

*Frantisek Taborsky*

## TRY: Lira may be biggest beneficiary of the carry trade

Above we discuss the benign conditions that favour the carry trade. One of the biggest beneficiaries of the carry trade over recent months has been the Turkish Lira. One-month implied yields for the lira are 44% per annum and if the lira does not fall sharply, total returns can look attractive. For example, holding the lira over the last month would have generated a 4% total return.

Behind the turnaround in the market's view on the lira has been the more conventional and tighter monetary policy enacted by the Central Bank of Turkey (CBT). Here, the policy rate has been taken to and kept at 50% since March. The CBT meets today and is widely expected to keep rates at 50% and retain its hawkish language as it tries to break the back of inflation (still running at 72% YoY).

Another hawkish press conference from the CBT can continue the bullish re-assessment of Turkish asset markets. Moody's was the latest of the rating agencies to upgrade Turkey's sovereign rating (last Friday) – the first upgrade from Moody's in more than a decade. Another hawkish meeting from the CBT can continue to see the lira outperform its steep forward curve.

Please see our latest edition of [Directional Economics](#) for our full overview of Turkey.

*Chris Turner*

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