

## FX Daily: Time to talk about parity

EUR/USD is close to the 1.0340 key support, below which would see the prospect of parity become quite material. The support may hold today as risk assets correct higher. But parity in the near term wouldn't be a shock. Elsewhere, the CNB's announcement of FX intervention is supporting the koruna, although more action may be needed given dovish prospects



### 📉 USD: Another short-lived correction?

Western equity futures are in the green this morning, in line with a rebound in Asian equities overnight after a very rough week for risk sentiment. In FX, the four G10 currencies that have been most strictly correlated with risk-asset dynamics – Norway's krone, Sweden's krona, and the Australian and New Zealand dollars – are attempting a recovery this morning. The liquidity factor is inevitably a key driver of the recent market moves, as often happens during times of market distress: it is therefore not surprising to see the most illiquid G10 currency – NOK – emerging as an underperformer (-11% in a month) despite the otherwise very supportive commodity picture.

Some recovery in risk appetite today could help mitigate recent losses for high-beta currencies and take some steam out of the dollar rally for now. Still, we'll need to see a material stabilisation in sentiment in the coming days to actually reverse some of the recent FX moves. The market's

concerns around the combination of Fed tightening and expected global slowdown continue, however, to argue in favour of volatility and instability in risk assets. Ultimately, this should keep many investors interested in buying the dollar dips after a potential correction today.

Today's main focus in the US is the University of Michigan survey for May, with the main sentiment gauge expected to have inched lower while the 1Y inflation expectations index may have increased marginally to 5.5%. We'll also hear some more post-CPI Fed comments today as the dove Neel Kashkari and the hawk Loretta Mester are both due to speak. Earlier this week, Mester seemed to re-open the door to a 75bp rate hike, a prospect which has not, however, seen much support from other FOMC members so far.

## 📈 EUR: One step closer to parity

EUR/USD broke the key 1.0500 support yesterday as a rocky risk environment continued to favour a stronger dollar while uncertainty around the implications of the Ukraine war in Europe remains elevated. Now, the next major support to watch is the 1.0340 January 2017 low. A break below such a level would make the risk of EUR/USD hitting parity quite material. [As we discussed last week in this article](#), we wouldn't be shocked to see the pair at 1.00 in the near term. Indeed, after losing the 1.0500 "anchor", EUR/USD volatility may well increase again.

A break below 1.0340 may not be a story for today though as the US session could endorse the rebound in risk assets and ease some of the dollar's momentum. The eurozone calendar includes industrial production figures for May, as well as a bunch of European Central Bank speakers, including Germany's Joachim Nagel (who recently fully endorsed a July hike), the arch-hawk Isabel Schnabel, as well as Luis Guindos and Mario Centeno.

The EUR has blatantly struggled to draw any tangible benefits from the increasingly hawkish tone among ECB policymakers, which in our view boils down to the already quite aggressive tightening expectations (80-85 bp fully priced in by year-end) and lingering uncertainty around whether the ECB will be able to deliver many more hikes afterwards given the deteriorating economic outlook in the euro area.

In this environment, another technical break lower in EUR/USD in the coming days is a very material risk.

## 📈 GBP: Trying to stop the bleeding

The pound is trying to find some support around the 1.2200 level after what has been a near-freefall from the upper half of the 1.20-1.30 range. [Yesterday's weaker-than-expected growth numbers in the UK](#) seemed to feed the narrative that the Bank of England might soon reach a peak in its tightening cycle as the British economy materially slows down.

The way ahead looks likely to remain very uneven for the pound considering that markets still have a good deal of monetary tightening to price out from the GBP swap curve (which continues to imply a policy rate at 2.00% by year-end). Incidentally, with Brexit-related risks back to the fore as the UK appears close to unilaterally scrapping parts of the Northern Ireland agreement, the downside risks for GBP remain quite significant and a move to 1.2000 next week may be on the cards.

At the same time, EUR/GBP may remain close to the 0.8500 mark (as the euro is facing weak

momentum of its own), although we see greater potential for a return to 0.8600 rather than a drop to 0.8400 in the near term.

## 📈 CZK: CNB intervenes in the FX market for the second time this year

The Czech National Bank announced intervention in the FX market a day after the appointment of a new governor, who will take over on 1 July. *As we expected*, it did so in response to the recent reassessment of market expectations and the depreciation of the koruna. As a result, yesterday it returned below 25.0 EUR/CZK, which we believe is the CNB's goal. For now, in our view, this is mainly a verbal intervention, just like after the outbreak of the Ukrainian conflict, with minimal central bank activity in the market.

However, this time the situation is more complicated. Markets are bracing for the arrival of a dovish board, which is taking away support for the koruna in the form of record interest rate differentials. Thus, it can be expected that the central bank will have to stay in the market longer and at a greater cost than before. By 1 July, we expect nothing to change in the CNB's current approach and the koruna to remain below 25.0 EUR/CZK.

In the long run, if the new board is serious about its dovish direction, we can expect a much more frequent central bank presence in the market.

### Author

#### Francesco Pesole

FX Strategist

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

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@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)

### 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](http://www.ing.com).