

FX Daily: Trade and tax story weigh on the dollar

A shift to a more confrontational stance on trade between the US and China, plus a focus on a potential US 'revenge tax' on foreign investors, are weighing on the dollar. Softer jobs data this week could also see the dollar explore the downside. Elsewhere, we should see rate cuts in the eurozone and Canada



A deterioration in US-China trade relations and focus on a possible 'revenge tax' are weighing on the dollar

📉 USD: Risk environment softens on trade confrontation

Global equity markets and the dollar start the week a little softer as trade tensions between the US and China start to reappear. It's not quite fair to say that the US-China trade deal reached in Geneva last month is unravelling, but both sides clearly seem frustrated. Social media posts from US President Donald Trump on Friday and comments made in the Chinese state media today both express frustration that trade commitments have not been adhered to. Any early end to the deal, which lasts until 12 August, would hit risk assets and the dollar again. At the same time, the tariff story took a more aggressive turn at the weekend with Washington choosing to double the 25% sectoral tariff in the steel and aluminium sectors. We're still waiting to hear back from the US

Commerce Department on findings in the likes of the pharma, chip and aerospace sectors. 25-50% sectoral tariffs could potentially be unveiled there too.

Another, more indirect factor that may be keeping the dollar soft is the threat of a Section 899 'revenge tax', which is currently in President Trump's tax bill working its way through Congress. The idea here is that the US can employ a retaliatory tax of up to 20% on any country's residents (both the private and public sectors) employing 'discriminatory' taxes. There is a lot of legalese here in terms of definitions of these taxes, but one of these is the Digital Services Tax, currently employed in much of Europe and places like India and Taiwan, too.

In theory, if these countries do not remove these discriminatory taxes in time, a new withholding tax on gross income (interest, dividends and royalties) could be applied from the start of next year should the bill go through Congress. The Senate looks at this this week. This all adds to the narrative of the potential divestment of US assets – something we'll be tracking closely as the data emerges.

In terms of data this week, there's a big focus on jobs (job openings on Tuesday and payrolls Friday), plus business surveys starting with ISM manufacturing today. We'll also have quite a few Federal Reserve speakers and get the Fed's Beige Book on Wednesday. In terms of the latest Fed views, Christopher Waller gave [a speech in Asia](#) earlier today, once again as a proponent of rate cuts later this year. In terms of current market pricing, 53bp of Fed rate cuts are expected this year.

Even though the speculative market is quite short dollars already, the bearish overhang suggests DXY can edge down towards the 98.70 area, barring a big positive spike in the ISM today.

Chris Turner

📈 EUR: Staying bid despite another ECB rate cut

Dollar problems are keeping EUR/USD bid. This despite the fact that the European Central Bank will [very likely be cutting rates on Thursday](#), and this week's inflation data in the eurozone should come in on the soft side. Here, the flash May eurozone CPI is released tomorrow, where core is expected to drop back to 2.5% year-on-year.

Also on Thursday will be a meeting of NATO defence ministers in Brussels. The European representatives should be better prepared for further excoriating remarks from the US, and may refocus market attention on the planned big pick-up in defence spending. Additionally, some further colour on German fiscal expansion in late June should also prove euro supportive.

EUR/USD has some intra-day resistance at 1.1425, above which a short-term run-up to 1.1500 beckons.

Chris Turner

➡ GBP: Staying supported

Sterling is staying relatively supported, particularly against the dollar. In terms of the local sterling story this week, we are due to hear from quite a few Bank of England policymakers, especially at tomorrow's Treasury Committee meeting. Also this morning, we've just seen some better house price data for May – potentially an area of support for the UK economy as interest rates get cut.

We look for two further 25bp rate cuts this year.

Above 1.3525 opens up 1.3600 for Cable.

Chris Turner

📌 CEE: Opposition candidate wins Poland's presidential election

In Poland, the second round of the presidential election was won by the opposition candidate Karol Nawrocki. The market is taking a bearish side at the open. Overnight PLN trading saw levels above 4.260 per euro, which we believe was already indicated by Friday's move in rates following weaker inflation numbers. In our view, this is only the starting point for EUR/PLN, and we are likely to see a push to higher levels above 4.280.

We believe the market will mainly be watching the election result to measure its impact on the government's next steps and potential consolidation of public finances. An opposition win may therefore be seen by the market as less likely to prompt changes on the fiscal policy side, leading to renewed pressure on government bonds and widening asset spreads.

With the start of a new month, the calendar in the CEE region is usually very busy. PMIs across the region will be released today, which could show some slight improvement in sentiment.

Tomorrow, we will see May inflation in Turkey, which should slow again after a stronger April. On Wednesday, May inflation and first-quarter wage data will be released in the Czech Republic. We expect a small pick-up from 1.8% to 2.1% for headline inflation, in line with expectations. The National Bank of Poland also meets on Wednesday; we expect it to leave rates unchanged at 5.25% following May's 50bp cut, instead opting to wait for the new July forecast. Industrial production in the Czech Republic will be published on Friday.

Frantisek Taborsky

Author

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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 www.ing.com.