

## FX Daily: US-JPN deal good for risk assets but is mixed news for the yen

European markets have opened to news of a US-Japan trade deal. Equity markets globally are rallying on the view that deals reduce uncertainty. The yen, however, is less certain of what this all means – especially given the prospect of an imminent resignation from PM Ishiba. Elsewhere, commodity currencies continue to do well as industrial metals rally



Japanese PM Shigeru Ishiba speaks to reporters today following the trade deal with the US

### ➔ USD: Trade deals are good news for risk assets

Equity markets are trading higher around the world on news that President Trump has announced a trade deal between the US and Japan. The deal is being pitched as a 'win-win' in that US tariffs on Japanese goods – including autos – are 'only' 15% compared to the 25%+ previously threatened, while Japan is said to have committed to purchasing US planes and rice, and rather unbelievably, to establishing a \$550bn sovereign wealth fund that would invest in the US under the direction of President Trump. Let's see how far that idea progresses.

Looking at Japanese markets, we can see Japanese equities up 3%, 10-year JGB yields +6bp and the 1m JPY OIS rate priced in one year's time +8bp. So far, so yen bullish. Yet USD/JPY is flat around

147 and that probably has to do with politics. Having got the trade deal over the line, it looks like Prime Minister Shigeru Ishiba is ready to take responsibility for the poor Upper House election result and resign. That ushers in a period of political uncertainty and questions how any new PM will work with opposition parties – more fiscal expansion? – and what pressure is brought to bear on the Bank of Japan. With so much uncertainty and low volatility still favouring carry, we do not see a strong rationale for the yen to trade a lot stronger from here.

Elsewhere, we note industrial metals continuing to rally and the terms of trade rising for currencies like the Australian dollar, Brazilian real and South African rand. These currencies also act as a hedge should Fed Chair Powell be ousted and the commodity sector be viewed as an inflation hedge in the event of premature Fed easing. This trend may have legs.

In terms of the big dollar, price action has been poor. This week's losses could somehow represent a catch-up with some lower US yields seen last week or merely represent some investor re-allocation out of the US and into say Europe or Emerging Markets on a global growth play. For today, the US focus will be on the June existing home sales release. Some are thinking that the housing sector will be the next shoe to drop in the US slowdown. However, our team sees some slight upside risk to today's data based on the recent bounce in mortgage applications. If so – and given the more mixed USD/JPY environment today – DXY could see a retracement to 98.

*Chris Turner*

## ➔ EUR: Quietly bid

It did not take a lot for EUR/USD to push through last week's 1.1720 high, a move we had not been expecting. If the move had been based on fears of another cliff-edge on tariffs on 1 August and a mini repeat of the 'Liberation Day' sell-off in US assets, then the overnight deal with Japan should calm some nerves. And the cross-asset story yesterday did not support such a narrative.

Instead, we suspect that EUR/USD demand is related to the ongoing rotation out of assets in the equity, government bond and credit space. Indeed, news from the credit space is that global investors are showing a keener interest in euro-denominated products, and issuers are obliging. This is bound to be a story we'll be tracking closely and one that we flagged in this report on the [opportunities for the euro](#).

Technicals are supportive for EUR/USD after three weeks of consolidation. But if USD/JPY is not as offered as it has been so far this week and if the US housing data does pick up, EUR/USD might grind back to the 1.1680 area today. From the eurozone side, look out for some modest improvement in July consumer confidence.

*Chris Turner*

## ➔ HUF: Markets are looking for new impetus

As anticipated, yesterday's meeting of the National Bank of Hungary did not introduce any significant new developments. The central bank confirmed rates at 6.50% and a hawkish tone. However, the market's attention was caught by the decision to cut the required reserve ratio from 10% to 8%. As our economists discuss in [the NBH review](#), this decision only offsets the expiring liquidity in the market from previous facilities. Thus, overall, the amount of liquidity should remain unchanged. However, the central bank's decision implies some activity in preventing more

tightening, which the market sees as dovish if anything. Although rates remained 1-2bp higher at the end of the day, we saw more upward pressure before the meeting, while the rest of the CEE region ended lower yesterday.

EUR/HUF didn't see much enthusiasm yesterday and remained almost unchanged despite more volatility in the rest of the CEE region. As we discussed here before, we have been neutral on HUF since early July despite the bullish stance of the market. Although carry with lower volatility may look attractive here, we believe EUR/HUF does not have much momentum to test lower levels and the 399-400 range should work in the days ahead.

*Frantisek Taborsky*

## 📉 PLN: Weaker data shifting story in dovish direction

Yesterday's retail sales in Poland surprised to [the downside](#), as did industrial production on Monday. Overall, the story is moving in a dovish direction in line with our views. The IRS curve saw a significant drop yesterday, outperforming CEE peers, and the interest rate differential in the 2y segment fell back to the narrowest July levels. Overall, everything is pointing towards more National Bank of Poland rate cuts and we therefore remain bearish on PLN.

EUR/PLN saw a move back above 4.250 yesterday but local flow still seems to be preventing a more significant move higher. The next interesting point will be July inflation next week which should confirm a more aggressive rate cut path, potentially by 50bp in September. Hence, we believe EUR/PLN is still heading towards the 4.280 levels.

*Frantisek Taborsky*

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