

## FX Daily: Week ahead events unlikely to dethrone the dollar

With the global risk environment likely to stay challenged by global recession fears, we don't think we'll see a dollar contraction this week. Fed rate expectations should remain supported unless we see a very weak US jobs report. EUR/USD could re-test May's lows, while AUD/USD may struggle to recover even if the RBA delivers a hawkish 50bp hike



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### USD: Counting on a rather solid floor

July has historically been considered a low-volatility month in global markets: this year, this notion may fall quite far from reality. Even if global equities have mostly embedded the new inflation-focused approach by the Fed and other major central banks, the depth of the upcoming global slowdown remains highly uncertain, leaving risk assets in a rather fragile state for now. Stock and bond market volatility is set to continue generating material volatility in the FX market, in our view.

It is therefore quite hard to forecast a marked change of direction in the dollar for now, even though recent CFTC data continues to show speculative dollar positions have remained around two-year highs, in theory leaving the greenback at risk of a long-squeeze. The week ahead sees

two major releases in the US.

The June FOMC minutes (Wednesday) may tilt the balance towards markets fully pricing in a 75bp rate hike at the end of this month, should there be some indication of a growing consensus at the June meeting.

The US jobs report (Friday) should, in theory, show some fairly strong employment gains (ING forecasts 270k), but the risks of a below-consensus reading are non-negligible given the lingering lack of suitable workers available to fill the huge amount of job vacancies. That said, with a Fed firmly focused on fighting inflation, we'd likely need some very weak payrolls to cause a material re-pricing in Fed's rate expectations.

We think the dollar can still count on a rather solid floor this week – around 104.00, if DXY is taken for a reference – as markets may not find a good reason to completely rule out a Fed 75bp hike in July (on the contrary, expectations for this may be cemented), while a significant rebound in global equities appears relatively unlikely given still challenging global conditions.

All high-beta currencies may remain on the back foot, although we continue to see the Canadian dollar as the least vulnerable of that segment given the still positive commodity story and some jobs data (also on Friday) which may do little to challenge the Bank of Canada's aggressive tightening plans. Today, markets will keep an eye on the BoC business outlook survey for 2Q, normally an important piece of information for the Bank's policy decision, while in the US the calendar is very light and markets are closed for the Independence Day holiday.

## ↓ EUR: Re-testing May's lows?

Last week's CPI jump in the eurozone had a contained impact on EUR/USD, highlighting the recent lack of sensitivity of the common currency to the inflation numbers as: a) markets are already pricing in 140bp of ECB tightening by year-end; b) global assets seem to be trading more in tandem with recession fears given that aggressive monetary tightening has been largely factored in.

Recession fears now appear to be mostly linked to further developments in Russia-EU relations pertaining to gas flows, as fears of Russia halting or further reducing exports to Europe remain quite elevated. The data calendar is rather quiet this week in the eurozone and several ECB speakers - Joachim Nagel and Luis de Guindos today, Christine Lagarde, Philip Lane and others later this week – may still fail to generate any material jitters in EUR/USD.

We think the pair runs a bigger risk of re-testing the 1.0380 May lows in the coming days rather than returning to the 1.0500-1.0600 area, given the still unstable global risk environment.

## → CEE: Another round of rate hikes

This week it is the turn of Poland and Romania to show what they can do. We expect both monetary policy meetings to bring a 75bp rate hike, to 6.75% in Warsaw and 4.50% in Bucharest. While the [National Bank of Poland](#) may surprise on both sides, weaker PMI vs record CPI, the [National Bank of Romania](#) is more inclined to take a bolder step. Romania still has the lowest rates in the region and the latest Czech National Bank and National Bank of Hungary decisions support the hawks on the board. In the Czech Republic and Hungary, we will see May industrial production data this week, which should still show a solid result. However, the summer months

may bring a cold shower and confirm the recession fears suggested by the latest PMI numbers.

We will also see Hungarian inflation for June. Peter Virovacz [expects](#) a further acceleration from 10.7% to 11.5% year-on-year. On the FX side, we like the Polish zloty, which we think has the most potential for gains in the region at the moment. The zloty is closely following the rate differential, which opens the way back to the 4.60-4.65 range. The forint is back at the 400 level and we continue to believe that 395 is the limit for where it can move in the current conditions. The koruna remains at 24.75, where we believe it will remain thanks to continued CNB interventions. On this topic, [we published our estimate](#) of intervention volumes and other details last week.

## ➔ AUD: RBA to hike by 50bp tomorrow morning

The Reserve Bank of Australia announces monetary policy before the European open tomorrow (0530 BST), and the main question is whether policymakers will hike by 25bp or by another 50bp. As discussed in [our RBA meeting preview](#), we think another half-point increase is more likely. A larger, 75bp hike, cannot be fully ruled out, but we think it is improbable given that it was not mentioned as a possibility by Governor Lowe at a recent speech and may be an unwarranted move given that the RBA sets its policy monthly and therefore has greater flexibility than others in adjusting its policy path.

The pool of economists looks unanimous around a 50bp hike, but market pricing does not seem to fully price in such a scenario (40bp is embedded in the swap market). Despite this, the Aussie dollar has been largely de-linked from monetary policy and short-term rate dynamics, while remaining primarily driven by USD moves and the global risk environment. Even in the event of a hawkish surprise tomorrow morning, we think the risk is that we see an AUD reaction similar to the one of Norway's krone and Sweden's krona after their respective central banks' recent hawkish hikes: a very short-lived jump followed by an immediate correction to pre-meeting levels, as markets remain bearish high-beta currencies in the current market environment.

We think that a return to and above 0.7000 in AUD/USD will require quite a material stabilisation/recovery in global risk sentiment, and may only materialise in 4Q.

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