

## FX Daily: When bad news is good news

Global equity markets are putting in a little run of gains. The positive story seems to be that Fed Chair Powell's admission last week of the risk of recession means that global monetary tightening may not be as sharp as expected - and that's good news for equities. Quarter-end and half-year-end rebalancing may help equities and soften the dollar this week



### 📌 USD: Some respite in equities may help commodity FX in particular

The S&P 500 is nearly 8% up from its lows at the start of the month and rallied 3% on Friday. Helping the rally has no doubt been last week's re-pricing of tightening cycles around the world where 25-50bp of expected tightening were removed from some money market curves in just a few days. Driving that pricing seemed to be the much broader discussion - including from Federal Reserve Chair Jerome Powell - over the risks of recession. It is not clear we will get many more insights into those risks this week, although probably the most important Fed communication will be Powell taking part in the ECB's central banking forum in Sintra on Wednesday afternoon.

This better equity environment has seen the dollar weaken a little. There is much focus this week that quarter-end and half-year-end rebalancing by buy-side fund managers will give equities a lift

into Thursday. At the same time, buy-side surveys have been showing a lot of cash sitting on the sidelines looking for a home. Barring fresh shocks and since it is not a big week for US data, it seems not unreasonable to think equities could post some marginal further gains this week.

Most correlated to equity markets over the last three months have been the commodity FX pairs, and a benign week for equities could see the likes of the Canadian dollar and Norwegian krone play catch-up with their hawkish local central banks. This all looks like a slightly negative environment for the dollar. Yet we doubt the dollar will slump. It is far too early for central bankers to be signalling the all-clear with inflation. And signs later in the summer that central banks will still be tightening even as growth slows may trigger another wave of equity selling.

For this week, however, DXY could drift back towards the recent 103.40 lows.

## ➔ EUR: Temporary reprieve

EUR/USD traded volatility is dipping towards the lower end of its 8-10% recent range as EUR/USD starts to show more range-bound trading. Current price action is in keeping with our [baseline scenario](#) of EUR/USD trading in a range through the summer months before making a modest turn higher at year-end should, as we believe, the market shift towards pricing the start of a Fed easing cycle in late 2023. For the time being, however, the Fed will continue to sound hawkish and EUR/USD may struggle to hold gains over the 1.0625/40 area this week.

Elsewhere, the market will be looking out again at the weekly CHF sight deposit data to see if the Swiss National Bank has been selling FX reserves to engineer a stronger Swiss franc. EUR/CHF made it as low as 1.0050 on Friday and [as we have been saying for the last couple of months](#), 1.00 should not prove much of a floor in EUR/CHF - now that the SNB wants to drive the nominal CHF stronger to fight inflation.

## ➔ GBP: Equity rally could help sterling

Sterling continues to defy some of the more bearish forecasts - perhaps because some of its trading partners face equal challenges. For today, headlines could be grabbed this afternoon by news that Conservatives in the lower house have backed a bill suspending parts of the Northern Ireland protocol and risking a trade war with the EU. We suspect that news is priced in, even though it will not be welcome for sterling.

Helping sterling, however, should be the better equity environment where sterling has recently taken on the characteristics of a growth currency with a decent correlation with equities. In quiet markets, GBP/USD could edge up to the recent highs at 1.2400, while EUR/GBP could edge back down to the 0.8550 area. Last week saw 30bp priced out of this year's Bank of England tightening cycle - but GBP/USD held up well because a similar re-pricing was underway in the US, too.

## ➔ TRY: New measures provide temporary support for the lira

Turkish authorities have found a new way to boost the lira. On Friday, regulators announced that firms with excess holdings of foreign exchange would see access to commercial lira loans curtailed. The measures seem to be addressing one of the areas of lira leakage where credit growth was finding its way into FX.

The measures were announced late Friday and triggered a 5% rally in the lira. Most expect that the

lira will struggle to defy 70% inflation without recourse to more conventional monetary policy, thus it is not clear how long the lira can sustain these gains close to the 16.00/16.30/USD area.

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