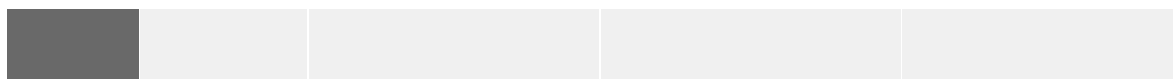


G10 FX Week Ahead: Work in progress

The dollar may find more reasons to stay bid in a week ahead that will see markets scanning the FOMC minutes to see how much “progress” the Fed sees in the US economy as well as any hints on tapering timing. Elsewhere, the two most hawkish central banks in G10 will announce policy: we expect the RBNZ to hike this week, and the Norges Bank to announce a September hike



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USD: How much progress has the economy made?

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.743	Mildly Bullish ↗	92.7000 - 93.4000	93.5000

- The dollar ends the week on the bid side, buoyed by rising US rates on the one hand and rising Delta variant cases (particularly in Asia) on the other. Driving the former has been Fed communication and Wednesday sees the release of the minutes of the 28 July FOMC meeting. Recall the statement released at that time noted that the economy 'has made progress' towards its employment and price stability goals. Presumably the minutes should shed light on how much progress has been made and when the Fed will be in a position to formally announce the tapering of its asset purchases – still running at \$120bn per month. Here the consensus is that tapering will be discussed in more detail at the Fed Jackson Hole symposium starting 26 August and possibly formally announced as early as the 22 September FOMC meeting. USD money market rates priced two and three years forward are still relatively conservative at 0.80% and 1.10% respectively – suggesting there is still upside risk to both rates and the dollar against the low yields on the back of Fed communication.
- In addition to the FOMC minutes, we'll also get to see July US retail sales, Industrial Production and Housing Starts. Confidence in the US recovery comes at a time when virus fears are spreading in Asia. Korea most recently is a case in point, where local asset markets and the KRW have been hit heavily. Concerns over the spread of the Delta variant in Asia have also led to a re-rating of Chinese growth prospects. A further take on this will come from the release of Chinese July data for industrial production and retail sales. For us 6.50 in USD/CNY is a big benchmark in whether the FX market wants to shift to a formal half-glass empty view of the world – clearly at odds with what Western equity markets are pricing right now. A sustained move in USD/CNY through 6.50 likely triggers broader gains in \$/EM and would provide broader support to the dollar in general.

EUR: Trying to survive above 1.1700

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1770	Mildly Bearish ↘	1.1700 - 1.1800	1.1700

- EUR/USD remains under pressure on both the strong dollar and the weak Euro. Central bank policy of the two is pointed in different directions currently and our bond strategy team argue that yield divergence is only set to increase. With the Treasury-Bund differential set to head back to the March highs of 200bp (from 180bp today), clearly EUR/USD support at 1.1700 looks very vulnerable.
- Helping EUR/USD hold ranges is perhaps very low levels of traded volatility (limiting appetite for range breaks) and the fact that a stronger dollar is quickly becoming a consensus view now. Europe has also done well with its vaccination roll-out and suggests its economy may be better able to resist the rising Delta variant numbers. In terms of data this week, we'll get to see the first revision of the Eurozone 2Q GDP figure, provisionally at a strong 2.0% QoQ and also some final July CPI readings. Like this past week, we suspect the story for next week is whether EUR/USD can survive at 1.1700.

JPY: Avoiding recession

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	110.12	Neutral	109.70 - 110.70	110.00

- Japan releases 2Q21 GDP on Monday and consensus expects Japan to have avoided a technical recession by growing at 0.1% QoQ – after contracting 1% QoQ in 1Q21. But with low vaccination rates and high case numbers – plus now signs of a China slowdown – Japan's recovery profile looks more challenging. Weak growth will add to the view that the BoJ remains firmly at the back of the queue when it comes to monetary policy normalisation, keeping the JPY as a preferred funding currency.
- Like the EUR, the JPY's best chance of a rally is probably on the back of an asset market correction. Yes, equities continue to drift to new highs in a low volatility environment, but such an environment can change quickly. Asia somehow reaching a tipping point with the Delta variant such that Western equities finally react (we are starting to see the semiconductor sector in general come under pressure) could be one of the catalysts. We would stay neutral on USD/JPY in the near term as risks look evenly balanced.

GBP: Sings that the bullish sentiment is wobbling

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3840	Neutral	1.3770 - 1.3900	1.4000

- EUR/GBP made the break above 0.8500 today after yesterday's session saw the pound weakening across the board despite some strong (albeit in line with consensus) growth data (4.8% QoQ) for 2Q. It appears that the bullish sentiment on GBP has gotten somewhat shakier in the past few days, as markets may start to question the Bank of England's optimistic outlook given the recent virus wave.
- Markets will look for more clarity in next week's busy data calendar. July's jobs data on Tuesday may see a tick lower in the unemployment rate as the re-opening has likely led to a rise in job adverts. Inflation data on Wednesday may see the headline CPI YoY tick lower mostly due to a base effect (prices jumped in July 2020 when restrictions were eased), in line with our view that we'll see UK inflation bouncing around this summer. That should not have a long-lived market impact, as the Bank of England is mostly focused on inflation dynamics in 2022. Finally, retail sales may have declined modestly in July as the Delta-variant impact may start to be felt. Overall, it may be too early to see the pound regaining its previous bullish steam, but we would expect at least some stabilisation, and EUR/GBP may well break back below 0.8500 in the week ahead.

AUD: Surviving the cross-fire, for now

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7360	Mildly Bearish 	0.7290 - 0.7390	0.7400

- The Aussie dollar has remained gently offered this week, and this can actually be considered a sign of resilience of the currency – a net positioning already [skewed to net-short territory](#) may have contributed here – considering that negative factors for AUD continue to pile up. Along with a worsening sentiment in Asia and in China in particular (to which AUD has a high beta), Australia is facing its worse Covid-19 crisis so far, with major cities having to enter or extend lockdowns. The fact that only 16% of the population in Australia has been fully vaccinated argues against a quick resolution to the current epidemic crisis.
- Last but not least, iron ore prices have continued to drop and have now reached the \$130/MT level, close to 5-month lows. It's hard to see any material improvement in any of those factors in the week ahead, and the downside risks should continue to prevail for AUD. On the domestic side, along with the RBA minutes on Tuesday, we'll see July jobs data on Thursday. Any signs of a less dovish RBA in the minutes or another marginal drop in unemployment may give little help to AUD as they would both be seen as outdated considering the material worsening of the Covid-19 situation in Australia in August.

NZD: RBNZ to start hiking this week

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7020	Neutral	0.6950 - 0.7100	0.7200

- The RBNZ will, in our view, deliver the first rate hike of 2021 in the G10 space at its 18 August policy meeting. We look in detail into the meeting and the market implications in "[RBNZ meeting preview: Let the hiking begin](#)". In summary, as the market is fully pricing in a 25bp rate hike in August (and another one by year-end), there should be limited positive impact on NZD from the hike itself, but most of the market reaction will likely depend on the rate-path projection that will be updated in the Monetary Policy Statement.
- Considering the market is pricing 100bp of easing by mid-2022, and the recent re-rating of growth expectations in the APAC region due to the Delta variant spread, we suspect the RBNZ rate projections will fall short of those embedded in the swap market. That also suggests the short-term positive impact on NZD could be contained. At the same time, the NZD has still to fully benefit from the re-pricing of RBNZ rate expectations on the hawkish side: once market sentiment settles and the USD stabilises, the attractive yield of NZD should make it a key outperformer in G10. For the week ahead, apart from some inevitable volatility around the rate announcement, we think NZD/USD may continue to hover around the 0.7000 level.

CAD: Inflation unlikely to be a game changer for the BoC

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2520	Neutral	1.2470 - 1.2570	1.2400

- Oil prices showed some resilience in a week when more red flags of a worsening demand outlook came from the OPEC monthly report and the IEA (which signalled the risk of the oil market tilting to surplus in 2022). This may have contributed to protect CAD from more USD appreciation.
- In the week ahead, the focus will be on July's inflation data in Canada. We don't think that small deviations from the 3.1% June read (especially if headline inflation stays above 3.0%) will have a material market impact. After all, despite having fallen short of consensus, the July jobs report showed more gains on the employment side, which are enough in our view to leave the Bank of Canada on track to end its asset purchase programme by the end of the year. USD/CAD could explore again sub-1.2500 levels next week as long as oil prices continue to show some resilience.

CHF: Turn in the trend?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0820	Neutral	1.0780 - 1.0850	1.0800

- EUR/CHF has had a strong bounce off 1.0720 over the last week. Price action would suggest that SNB intervention may have picked up again – such that Monday’s CHF sight deposit data will be under particular scrutiny. Sight deposits had picked up by about CHF1bn in the latest reporting week – though direct estimates of FX intervention size using these is hard to make.
- There is not much local data of interest this week and like the JPY, the CHF may more be driven by what any fresh global inputs mean for the global risk environment. With cross-market asset volatility low and global equity markets (ex Asia) near their highs, it seems hard to think the risk environment can get much better. That is why we would not be chasing EUR/CHF higher from these levels.

NOK: Norges Bank to confirm September hike

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.3700	Mildly Bearish 	10.2700 - 10.4000	10.3500

- Like CAD, NOK may have drawn the positives from oil surviving a turbulent week. Despite not having CFTC data on NOK positioning, we suspect market’s shorts on the krone had risen significantly over the past week and any signs of stabilisation in sentiment may encourage some position-squaring that could come to the help on NOK. The tick-up in Norway’s inflation in July likely played a role too.
- The Norges Bank policy announcement on Thursday will be an “in-between” one, where we simply expect policymakers to confirm that they will start hiking rates in September, which is what is implied in their rate projections. So far, the NB has not explicitly set the timing of the rate hikes in their policy messages, and they have historically a tendency to announce a rate adjustment in the previous meeting. That should not come as a surprise to the market, that is already fully pricing in the two 25bp hikes projected by the NB, in September and December. We expect NOK to stay broadly supported around the meeting as markets can cement their views that the krone will be, after NZD – if the RBNZ hikes twice as we expect – the second highest yielding currency in G10 at the end of 2021.

SEK: EUR/SEK to stay around 10.20

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2000	Neutral	10.1650 - 10.2330	10.2000

- A slowdown in core CPI YoY to 0.5% in July is a signal that the market's dovish expectations on the Riskbank's policy remain warranted by the subdued inflation outlook in Sweden. This could come to the detriment of SEK in the longer run if interest for carry trade re-emerges, as it may make the krona lag other activity currencies.
- In the week ahead, there are no economic data in Sweden that will move the market, and SEK may only be sensitive to the dataflow out of the eurozone (GDP and CPI). Still, we expect EUR/SEK to keep oscillating around the 10.2000 gravity line.

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