

Pause in dollar strength

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USD: Pause in dollar strength

The lack of key data points and the stabilising/modestly higher Chinese yuan overnight suggest some respite for risk assets and emerging market currencies today, with the US dollar unlikely to post gains. We don't expect the US decision to re-impose sanctions on Iran to have a material spillover into risk sentiment – it should remain a largely localised story. The Reserve Bank of Australia meeting overnight was a marginal positive for the Aussie dollar. While the central bank kept rates unchanged (as widely expected), the RBA still looks for an increase in inflation in 2019-2020 and provided no verbal intervention against the currency, only stating that AUD “remains within the range that it has been in over the past two years.”

EUR: Staying above the 1.1500/1510 support area today

We look for EUR/USD to stay above the 1.1500/1510 support area today, as the lack of data points (both in the eurozone and US) today and tentatively stabilising risk environment should prevent the cross from declining. In Sweden, expect a limited impact on the krona from today's June industrial orders, with all eyes on July inflation readings this Friday (which pose downside risk to SEK).

HUF: Helped by the general risk environment

Our economists do not expect Hungarian June industrial production to disappoint in spite of the start of the holiday season in June. The real fireworks are likely to come in July, which was when Audi finally started production of electric vehicles. While the Audi production should help to improve the current account position in 2H18, today's data should have a muted impact on the Hungarian forint, with EUR/HUF trading largely as a function of the general risk environment as well as the forint's legacy speculative shorts. In terms of spillovers, the depreciation of the yuan is likely to be a more important factor for the general risk environment than the pace of the Turkish lira selloff (see below). With CNY stabilising overnight, we see downside risks to EUR/HUF today.

TRY: The perfect storm with no ending at sight

The Turkish lira sold off sharply yesterday and overnight, briefly trading around the USD/TRY 5.40 level. The central bank's announcement to provide \$2.2 billion of FX liquidity via a change to its reserve option coefficients had no impact on markets. Yet again, TRY finds itself in a perfect storm with (a) the inflation targeting credibility of the CBT heavily dented following its on-hold decision in July and (b) the sharply rising threat of US sanctions. As per [Turkey takes steps to add liquidity as lira sinks](#), a monetary policy response would be helpful but most likely wouldn't be enough to stabilise TRY, given that the overriding concerns are tied to geopolitical relations. Bar a short-term correction from oversold levels, we expect more TRY weakness to come (which will, in turn, lead to a further deterioration in the inflation outlook and leave the CBT even more behind the curve).