

Turkey: Central bank to deliver short-term support for lira

We expect the Central Bank of Turkey to deliver a measured 100 basis points of tightening today while Hungary is likely to keep rates on hold



Source: istock

USD: The very short-lived dollar weakness

A soft patch for the US dollar has so far proved to be even more tentative and short-lived than expected, particularly against the Asian emerging market FX segment where the softening yuan (CNY) has been dragging the entire region lower against the dollar. With CNY weakness fully in place, the next wave of the trade war may hit Asia's commodity currencies hardest (such as the Malaysian ringgit and Indonesian rupiah) – see [Asia FX talking](#) for more details. We continue to see the Japanese yen as the regional outlier given speculation about a shift in the Bank of Japan stance and the yen's attractiveness during times of stress (i.e. the trade war escalates).

EUR: Eurozone July PMIs to show limited impact of trade tensions

Stable eurozone July PMIs today are likely to show the limited impact of trade tensions on sentiment and be partly supportive of the euro. In turn, this should limit the currency's downside

and prevent EUR/USD from falling below the 1.1600 level. We continue to see EUR/USD range bound around 1.1700 in weeks to come.

TRY: The lira to get short-term support from the CBT

We expect the Central Bank of Turkey to deliver a measured 100 basis points of tightening on the back of (a) a sharp deterioration in the inflation outlook; (b) forward-looking expectations worsening; (c) external imbalances and the resulting increase in financing needs. The 100 basis point hike should be a short-term positive for the Turkish lira, as it should be viewed as yet another step by the CBT to regain inflation-targeting credibility. USD/TRY should break below the 4.70 level today. Yet, the price action should be short-lived given the uncertainty on the policy mix (mainly on the fiscal side).

HUF: Still the most vulnerable CEE currency

With EUR/Hungarian forint back below the 330 level, the pressure on the central bank to act has eased, thus pointing to no change in the policy set up at today's meeting. We remain wary of HUF as the National Bank of Hungary is unwilling to tighten and a softer currency may reignite inflation concerns. The swift move in EUR/HUF from 330 down to 322 in the first half of July was largely positioning driven (i.e. investors booking profits on HUF shorts) and doesn't reflect a changing perception of HUF, in our view. We look for EUR/HUF to retest the 330 level this summer and expect EUR/HUF to break above 327.00 today.

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