USD: Fade the GDP hype

Today's US GDP print is not the start of a new economic norm; expected growth of around 4% for the second quarter is distortedly high

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USD: 4% US GDP growth to mark high in short-term USD cyclical dynamics

There's no doubt the US economy is strong – especially given where we are in the cycle – and today's 2Q18 GDP release should in effect confirm this strength. But if anything, our message to investors today is to warn against extrapolating a potential 4% quarterly annualised growth figure (there will almost inevitably be a tendency for markets to do this). Today's US GDP print is not the start of a new economic norm; the circa 4% figure is distortedly high due to base effects (soft 1Q), some tariff-related trade activity and high inventories. Moreover, one should not confuse the optically high quarterly growth figures with annual ones – 2018 US GDP growth is still set to come in around 2.8-3.0% (maybe lower if Trump chooses to escalate the trade war). So if GDP growth differentials matter for currencies – and they do – then the most probable outcome in our view is a convergence in economic growth between the US and the rest of the world (RoW) – coming from either lower US growth, higher RoW growth or some combination of the two.
10-year US Treasury yields have slowly crept up to within touching distance of 3% while the USD has been bid in the sessions following the ECB meeting. But if this high US GDP print is more luck

(rather than fundamental), then we won't be surprised to see a 'buy the rumour, sell the fact' type of reaction – with the USD broadly weakening after the release. Plus, one shouldn't forget that a strong US consumer isn't exactly bad news for the world economy or global risk appetite.

EUR: ECB summer snooze fest provides little impetus for the single currency

If you missed yesterday's ECB meeting, well it's safe to say that you didn't miss out on much. The only mildly exciting thing that we took away from the event was President Mario Draghi noting that current market expectations were "very well aligned" to the ECB's own guidance – effectively condoning the dovish and flat eurozone rate curve. This won't bring much joy to euro bulls (like ourselves) hoping to see more than just the 10 basis points worth of rate hikes currently priced in, by the end of 2019 (we see 40bps). We still think it's eurozone inflation data that will dictate the timing and pace of ECB hikes. EUR/USD's 1.16-1.18 range is still intact for now. In Sweden, June retail sales may not bring about any sharp moves in the krona – but EUR/SEK has been drifting lower. A quiet summer market and easing trade war risks possibly helping here. A breach of 10.25 may open the door for 10.20.

JPY: BoJ tightening overhype means near-term downside risks to the yen

Bank of Japan meetings rarely yield any prior excitement – and so next week's event (Tuesday 31 July) will surely be special given that markets are already looking forward to it, right? Not quite. ING's Chief Asia Economist Rob Carnell notes that any upcoming BoJ policy changes could amount to no more than technical tweaks to the ETF buying programme. At the more hawkish end of the spectrum is the BoJ opting to raise the 10-year Japanese government bond yield target from 0.0% to 0.1% (an engineered steepening of the curve). But this seems too aggressive for an economy that is in a weaker fundamental position than earlier this year. The alternative option is to allow for a wider trading range around the 0% target (e.g. +/- 0.2%) – which may enable long-dated JGB yields to move higher in a global bond bear market. The most likely outcome is still one that sees the status quo from the BoJ - but flags a possible October policy shift. JPY investors may find this underwhelming.

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