# FX weekly: All eyes on BoJ, FOMC & BoE this week

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## 22nd July'24 – 26th July'24


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Last week saw two important data points coming out from US: Q2'24 GDP and June PCE inflation. Greenback slipped as dovish PCE Data further sparked rate cut hopes. PCE price index, the Fed's preferred inflation gauge, rose 0.1% MoM and 2.5% YoY in June'24 vis-à-vis 0.0% and 2.6% respectively in May'24, matching consensus estimates. Core PCE, excluding food and energy, rose 0.2% MoM and 2.6% YoY, in line with the projections. These figures suggest that inflation is gradually cooling, though still above the Fed's 2% target. Consequently, Sep'24 Fed rate cut probability is c.100% now.

July 31, the key date when the BoJ will hold policy meeting in the morning (as per India time) followed by the FOMC rate decision in the late night, which could be a catalyst for markets to price in additional rate cuts. BoE rate decision is scheduled on the next day; the odds are evenly balanced with 58% probability of a 25bps rate cut. The coming week will see volatility in global markets as central banks announce their key policy rates and US labour market release (July'24 Non-farm Payrolls (NFP)) data will be on close watch. The key FX themes for last week are outlined below.

- ♣ **Softer US data and increased FED rate cut bets dents the US dollar**
- ♣ **YEN sentiment improved on expectation of BoJ rate hike in July**
- ♣ **Unexpected rate cut & Intervention fears would decide CNY outlook**
- ♣ **Rupee gushed to all-time lows against dollar amid (capital markets' related) tax hikes in Budget**

### Softer US data and increased FED rate cut bets dent the US dollar

PCE data fuels rate cut expectations

While the June'24 PCE data *(detailed above)* sparked the case for Fed rate cuts, even as underlying economic activity remains steady. Advance estimates showed that the GDP (gross domestic product) grew at a 2.8% annualized rate in Q2-2024, above forecast of 2.0% followed by 1.4% growth in Q1.

US PMI data, indicated a faster expansion in private-sector activity. The S&P Global Composite PMI improved to 54.8 in June vis-a-vis 54.5 in May. The Manufacturing PMI climbed to 51.6 from 51.3, and the Services PMI advanced to 55.3 from 54.8. Treasuries held onto their recent gains even as traders weighed signs of a resilient US economy against calls for quicker interest-rate cuts from the Federal Reserve. NFP data will be in focus as it is expected to surge to 206k vis-à-vis 190k a month ago.

**Bets on double Fed rate cut in September**

**July FOMC will be a non-event but commentary will be in focus**

According to CME Group 30-Day Fed Fund futures prices, the likelihood of a double U.S. Federal Reserve rate cut in September has significantly increased. The data shows that for the meeting scheduled for September 18, 2024, the probability of a 50-bps cut to a target rate of 4.75-5.00% has risen to 11.9%, marks a significant jump from the 7% probability recorded last week. FOMC member Bill Dudley called for the Fed to cut rates, reversing his long-held view that the U.S. central bank should persist with its higher for longer rate regime.

**US Election: Kamala Harris gaining momentum**

After the Presidential debate few weeks ago, there was a view that Donald Trump was racing along to becoming the next president. But Joe Biden backed out of re-election campaign and endorsed Kamala Harris. This resets the election and is almost a start over with very little time to go. Many are now back to viewing this as a very close election, coming down to the wire. Recent polls suggest Trump has 55% winning odds which has reduced from 62% after Biden backed out while Kamala harries stands at 43% up from 35% a week ago.

**Rising Kamala Harris favourability**

Fed independence, and whether this could be impacted over time under a Trump presidency was raised as a key question. If the Fed's independence is questioned, it may "result in slightly easier monetary policy, reducing confidence in the ability of the Fed to get inflation back at 2%, thus anchoring inflation expectations at higher levels and also anchoring nominal rates at higher levels."

The outlook for the U.S. Dollar Index appears bearish in the short term. July Fed meet will be watched for additional insights into the monetary policy outlook and its potential impact on the dollar.

**YEN sentiment improved on expectation of BoJ Rate Hike:**

This week JPY hit 3-Month high (2.39% up this week) against dollar on expectation of BoJ rate hike. After the first-rate hike in March the BoJ has kept the rates steady in subsequent policy meet along with no change in its bond buying program, the next policy is scheduled on 31st July. Meanwhile, markets remain divided on whether the BOJ would raise interest rates again, although it is widely expected to announce its bond purchase tapering plans amid efforts to unwind its massive monetary stimulus.

Another reason for sharp strengthening in Yen has been positioning with speculators carrying very large short yen positions. As stops got triggered the extent of FX move seen was sharp. The yen also received some safe haven support as risk sentiment took a hit after Wall Street ended sharply lower amid an ongoing rotation out of technology stocks.

**YEN rises amid fragile sentiment ahead of BoJ rate decision**

Amid growing expectations for a July rate increase by the Bank of Japan, the government's monthly report showed no major improvement in its economic assessments. "The Japanese economy is recovering at a moderate pace, although it recently appears to be pausing," the government said in its July report. Recovery in private consumption, a major driver of growth, appears to be on pause. The yen's weakness in recent years has inflated import prices and hurt consumption. Technical support for USD/JPY lies at 151.30 levels while it may face selling pressure at levels of 154.50

**Unexpected rate cut & Intervention fears will determine destiny of CNY:**

The People's Bank of China (PBoC) has surprised markets on 22nd July’24 by suddenly cutting the key lending rates to new record lows to help lagging economy, injecting 435.1 billion yuan into the financial system. The 1-year loan prime rate (LPR), the benchmark for most corporate and household loans, was slashed by 10bps from 3.45% to 3.35%. The 5-year rate, a reference for property mortgages, was also slashed by the same margin from 3.95% to 3.85%. China's short-term interest rate, the seven-day reverse repo rate, was reduced to 1.7% from 1.8%, the first such cut in nearly a year, amid efforts to optimize open market operations and increase financial support.

**Sudden rate cuts by PBoC to support economy**

China’s central bank again decided to cut a key interest rate on 25th July’24, in Beijing’s second move to try to offset the stock market’s sharp fall across most of Asia in early trading, in an echo of Wall Street’s sharp drop the day before. The 1-year Medium Term Lending Facility (MLF) interest rate (the other policy rate) to commercial banks was reduced by 20 bps to 2.3% from 2.5%. This is the biggest cut since a similar reduction in April 2020, when the Chinese economy was struggling because of a nearly national lockdown in the early days of the coronavirus pandemic. As per media reports, the seven-day rate could be the future benchmark policy rate as the PBoC recently signalled a shift toward the short-term rate to guide markets. This will reduce the importance of the existing 1-year benchmark, the medium-term lending facility rate.

These moves caused China's stock markets to slip & sovereign bond yields also declined. Then the Chinese authorities stepped in to shore up the currency, a level not seen since Mar’24. Yuan took support around at 7.2109 levels amid heavy interventions; thereafter it depreciated & closed weak hitting resistance at 7.2696 levels. Technically for the coming week, support is seen at 7.2382 levels and strong resistance at 7.2749 levels on intervention fears.

**Rumours** of intervention to **support the currency**

## Rupee trading to all-time lows despite weak DXY

**Rupee gushed to all-time lows against dollar amid tax hike in Union budget:**

This week of July saw major global currencies witness retracements amid profit booking and strength in Dollar due to robust US PMI data, while softer US PCE data fuelled rate cut hopes. The CME Fed-watch tool now shows one FED rate cut fully priced in Sep'24. Markets are pricing in 3 rate cuts now in every Fed meet commencing Sep'24 against the FED conservative expectations of 1-2 cuts.

However, Rupee traded against the tide & traded in a narrow range throughout the week and hit fresh all-time lows where the upside was mainly capped by strong dollar sales amid intervention fears by the central bank. Though the government has revised the fiscal deficit target to 4.9% for FY24-25, down from the previous 5.1% in the interim budget, with an aim to reduce it below 4.5% of GDP by FY26, that is also anticipated to improve India's sovereign credit rating and economic standing, which in turn supported Rupee. The sentiment immediately reversed and INR touched its lowest level of 83.7275, pressured by the decline in local equities after the government's decision to raise the tax rate on capital gains and securities transactions (F&O) dampened market sentiment. Also, the weakening Chinese Yuan on the back of sudden rate cuts by PBoC to support its economy also dented the local currency.

FPI flows witnessed a major outflow in the equity segment to $-189.45 mln from $1782.84 mln a week ago, while the debt has seen consistent inflows of $657.38 mln up from $610.48 mln. RBI continued OMO sales for $2^{nd}$ consecutive week with a total sale of Rs 2735 crs in the week ended $21^{st}$ July & cumulative of Rs. 6140 crs to absorb surplus liquidity amid FAR related inflows. Month end Dollar bids from importers was seen; which kept the local currency elevated. Last week, RBI intervened in the market to curb volatility using its record high forex reserves $670.86 billion kitty which may have limited the fall in rupee.

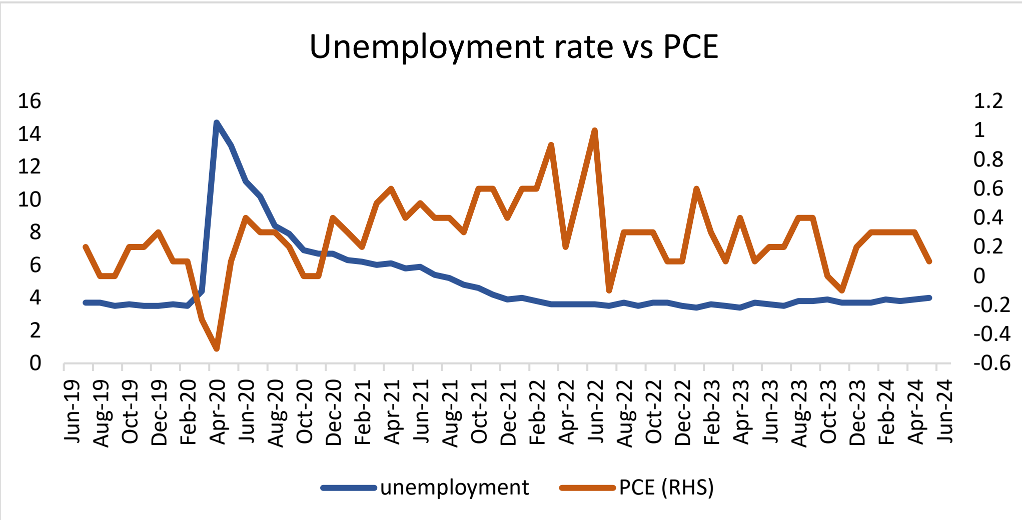
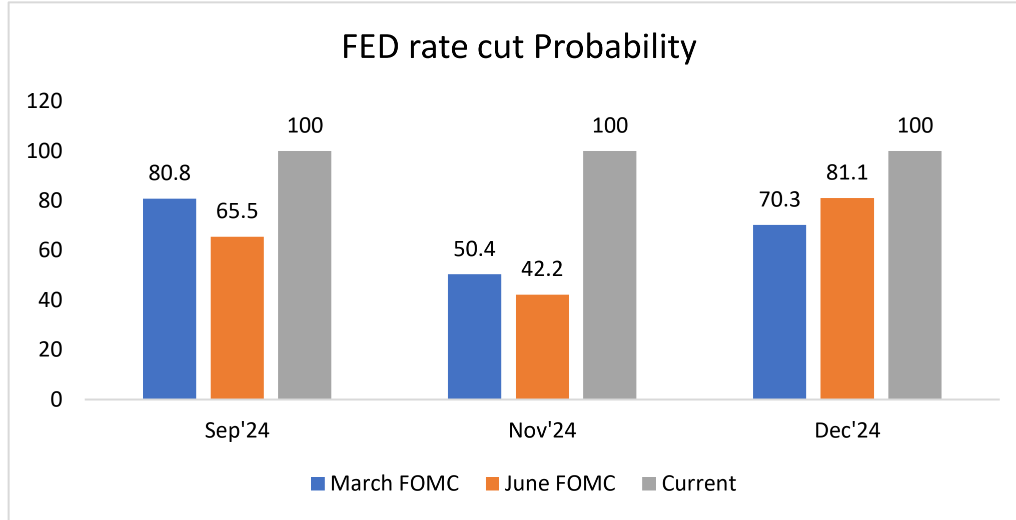
INR traded range bound throughout the week from 83.5350 to 83.7275. For the coming week, we expect the domestic currency to trade range bound, technically taking a support of 83.53 and will find a strong resistance above 83.88 levels.

**Market Weekly Performance**

| Currency | Close | W-o-w Change | Week Trend |
|---|---|---|---|
| DXY | 104.32 | -0.08% | ↓ |
| USD/INR | 83.7275 | 0.07% | ↑ |
| EUR/USD | 1.0857 | -0.18% | ↓ |
| GBP/USD | 1.2872 | -0.36% | ↓ |
| AUD/USD | 0.6548 | -2.01% | ↓ |
| USD/JPY | 153.72 | -2.39% | ↓ |

**Next Week Economic Indicators**

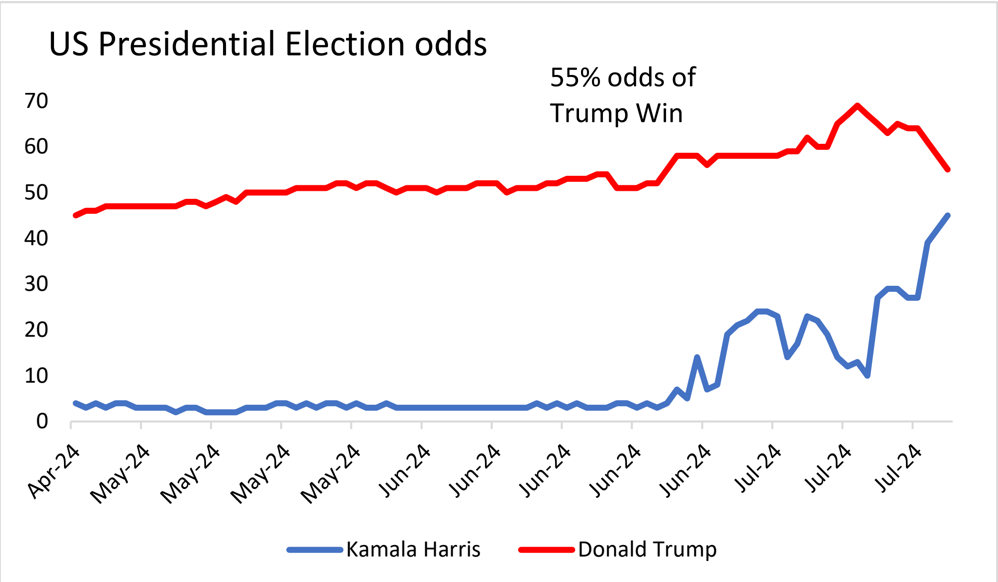
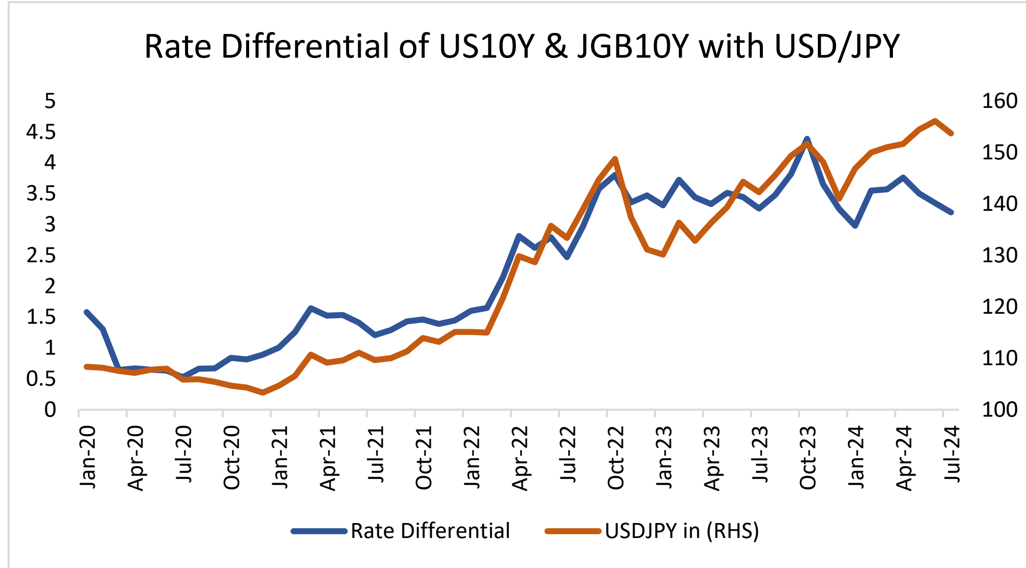
| Date | Time (IST) | Country | Data | Month | Forecast | Previous |
|---|---|---|---|---|---|---|
| 30.July.24 | 19:30 | US | Consumer Confidence | Jul | 99.8 | 100.4 |
| 30.July.24 | 19:30 | US | JOLTS Job Opening | Jun | 8.05M | 8.14M |
| 31.July.24 | 09:30 | JP | BoJ Policy Rate | 0.20% | - | 0.10% |
| 31.July.24 | 11:00 | JP | BoJ Press Conference | - | - | - |
| 31.July.24 | 14:30 | EU | EU Flash Core CPI (YoY) | Jul | 2.80% | 2.90% |
| 31.July.24 | 14:30 | EU | CPI Flash Estimate (YoY) | Jul | 2.30% | 2.50% |
| 31.July.24 | 17:45 | US | ADP Non-Farm Employment | Jul | 140k | 150K |
| 31.July.24 | 18:00 | US | Employment Cost Index q/q | Q2 | 1.10% | 1.20% |
| 31.July.24 | 19:30 | US | Pending Home Sales (MoM) | Jun | 0.80% | -2.10% |
| 31.July.24 | 23:30 | US | US Federal Fund Rates | 5.50% | 5.50% | 5.50% |
| 01.Aug.24 | 00:00 | US | FOMC Press Conference | - | - | - |
| 01.Aug.24 | 16:30 | UK | BoE Monetary Policy | - | 5.00% | 5.25% |
| 01.Aug.24 | 18:00 | US | Initial Jobless Claims | Jul | 241k | 235k |
| 01.Aug.24 | 19:30 | US | ISM Manufacturing PMI | Jul | 48.2 | 48.5 |
| 02.Aug.24 | 18:00 | US | Average Hrly Earnings (MoM) | Jul | 0.30% | 0.30% |
| 02.Aug.24 | 18:00 | US | Non-farm Payrolls | Jul | 206k | 190k |
| 02.Aug.24 | 18:00 | US | Unemployment Rate | Jul | 4.10% | 4.10% |

| US inflation gauge softened in June boosting rate cut hopes | September Fed rate cut probability fully priced in markets |
|---|---|
|  |  |





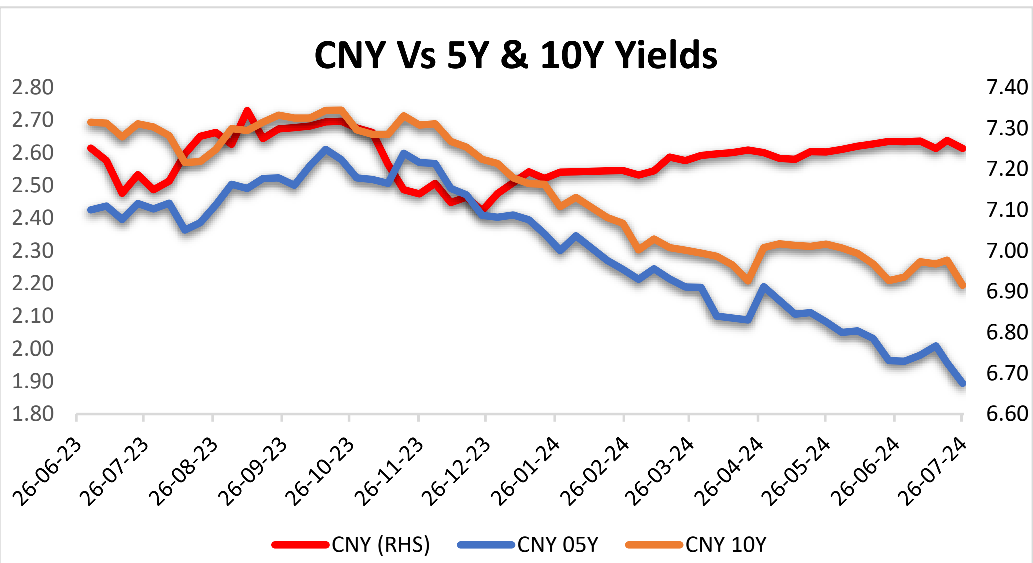
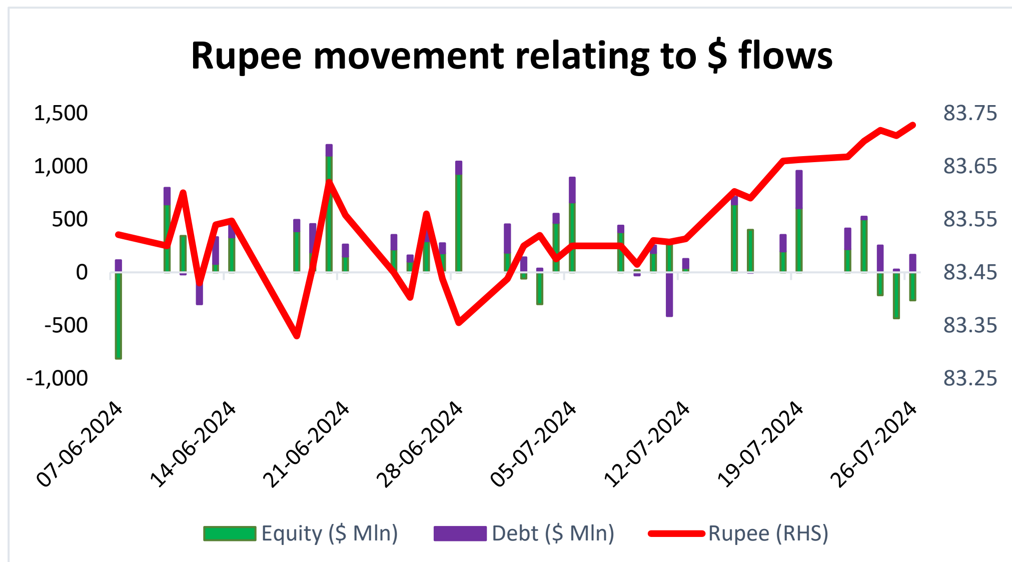
*Source: Bloomberg, UBI Research*

| Trump's prospects took a marginal hit after Kamala Harris nomination | Interest rate differential to reduce amid rate hike hopes |
|---|---|
|  |  |





*Source: Bloomberg, UBI Research*

| Record low bond yields amid rate cut & interventions support CNY | Rupee ended the week lower amid equity outflows |
|---|---|
|  |  |





*Source: Bloomberg & UBI Research*

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