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The recent Trump's Shooting incident may provide support to the US Dollar.

Powell didn't provide any signal about the timing of rate cut.

It was another week which saw DXY gather further pace and drop to multi-week lows amidst the broad-based US dollar selling, accompanied by a strong pullback in US Treasury yields. The market, continued to assess the likelihood of September rate cut by Fed after the favourable surprise in CPI data. Also, the news of Japan's Ministry of Finance intervention in FX market made the rounds and added to US dollar weakness.

The key FX theme for last week are outlined below. In the coming week US retail sales, ECB Monetary Policy and any further development with respect to US presidential elections will be of key importance.

- ♣ **US Dollar weakness continues while Trump's increase winning prospect in November capped the losses**
- ♣ **Cooling US inflation opens door for September rate cut**
- ♣ **Euro rally lead by weak US Dollar and hawkish ECB, upcoming policy meet this week likely to be non-event**
- ♣ **USD/JPY slips below 160.00 threshold on possible FX intervention and weak US Dollar**
- ♣ **Importers keeps USD/INR pair at elevated levels**

US Dollar weakness continues while Trump's increase winning prospect in November capped the losses:

The US Dollar ended another week on a weaker note at 104.08 levels (down c. 0.75% w/w), while the US 10-year yield was down c.12bps to close the week at 4.18% levels. This was largely in response to risk on sentiment and softer US CPI figures on Thursday followed by lower Michigan (UoM) sentiment data, both supporting the prospect of a Fed rate cut in September. The 2-year note, which typically moves in step with interest rate expectations, was down 15 basis points over the week to 4.45%, the lowest since March. The US bond market are reaching a breakeven point, with treasuries wiping out their 2024 losses as traders start to price in three interest-rate cuts this year. The CME Fedwatch tool shows 89% probability of FED rate cut in Sep'24 which has increased from 70% before the release of US CPI data and 68% a week ago.

The recent Donald Trump's shooting incident over weekend has raises his odds of winning the US Presidential election to 67% from 61% previously according to betting site predictit. Their initial market reaction has been to buy the U.S. dollar and sell longer term U.S. Treasuries i.e. Trump-victory trades. Next week the US retail sales will be of importance along with the speech of Fed officials and any update on US presidential election which may provide support to US Dollar. Technical levels show, DXY may get support from 103.50 levels while the upside seems capped at 104.75 in the coming week.

Powell's testimony was balance with dovish stance

Fed Chair Powell delivered the Semi-Annual Monetary Policy Report and testified before US Congress earlier in the week. Powell reiterated his previous statements and refrained from deliver any fresh clues regarding the timing of rate cut. He noted that the economy made considerable progress towards the Fed's 2% inflation goal and labour market conditions have cooled while still remains strong and believes that "restrictive monetary policy stance is helping to bring demand and supply conditions into better balance and to put downward pressure on inflation." Powell in his second testimony said that he realized that Fed faced two-sided risks. If the Fed starts cutting rates too early and too aggressive, the central bank would undermine the progress on inflation. In case the Fed cuts rates too late, it would put too much pressure on the economy and he doesn't need to see inflation at 2% before starting to cut rates.

Cooling US CPI fuels speculation for Fed to cut rates sooner than later.

Euro remained strong amid hawkish ECB statements, next week ECB monetary policy in focus.

Cooling US inflation opens door for September rate cut.

The eagerly awaited US CPI inflation data for June provided a very favourable surprise. As against expectations of a M-o-M pickup in CPI to 0.1%, the data clocked -0.1%, first negative print since May 2020. The 3% YoY reading was also the slowest annual gain in prices since March 2021. While inflation has remained above the Federal Reserve's 2% target on an annual basis since March 2021, the recent declining trend is encouraging.

Our analysis shows that the key driver of the drop-in headline inflation has been the energy sub-segment, as it fell by 2.0% M-o-M in June, same as last month. This was driven by a 3.8% MoM drop in gasoline and 2.4% decline in fuel oil index. While energy index was down, food CPI increased by 0.2% MoM in June, slightly above 1% in May.

Core CPI (ex food & energy) cools backed by declining Transportation prices:

Core CPI declined by 0.1% MoM in June on a seasonally adjusted basis from +0.2% in May. Core CPI eased from 3.4% in May to 3.3% last month to lowest levels since April 2021. The drop-in core CPI was contributed 5% MoM drop in travel-related while used car and truck CPI was down -1.5%. More importantly, especially in shelter sub-segment, with a critical 36% weight in CPI, which was largely blamed for higher core inflation rose 0.2% MoM, the YoY inflation remained sticky at an elevated 5.2% levels contributing c.70% to core CPI.

Euro rally lead by weak US Dollar and hawkish ECB, upcoming policy meet this week likely to be non-event

The EUR/USD pair during the week traded with positive bias and managed to revisit the 1.0900 level on the back of greenback weakness though data from EU remained thin, and uncertainty of French politics remains. The EUR/USD pair has risen close to 2.3% from late June's low of 1.0666. During the week gone by among the major data annual inflation rate in Germany fell to 2.2% in June, down from 2.4% in May, consistent with preliminary estimates while the core inflation moderated to 2.9%, the lowest reading since Feb22, from 3% in each of the prior two months.

ECB after first rate cut in June will be in no hurry to cut further, as this was evident from various ECB member statements over the week. As Lagarde stated that they remain vigilant on inflation particularly about services and need more data to lower the rates. The major event this week is monetary policy meeting where we expect ECB to keep rates on hold, however the monetary policy statement from Lagarde and any future guidance regarding interest rates will be watched closely. The market is anticipating no major update regarding further rate cut from Lagarde during her speech and will not commit to when and how much it will cut as they want to be led by the data. Currently market is pricing a 25bps rate cut each in September and December meeting. Meanwhile in UK the august rate cut probability has reduced from 62% at start of July to close to 50% currently.

French politics remains on backfoot at the moment while waiting for any news on coalition talks. While the Euro had to process an unexpected election in France, where initial market concerns about political shifts were replaced by relief around results that point to policy continuity for now. Risk to Euro can arise if any unfavourable news arises from France politics, which could lead to fresh weakness. Technical support for EUR/USD lies at 1.0790 levels while it may face selling pressure at levels of 1.0990.

USD/JPY slips below 160.00 threshold on possible FX intervention and weak US Dollar:

The yen hit almost four-week high against the U.S. dollar last week, raising speculation that Japanese authorities may have intervened for a second day to strengthen the currency. The rally in the Japanese currency, which has been trading at around 38-year lows, began on Thursday just after the release of US CPI data, boosting the odds of the Federal Reserve cutting rates as soon as September. On Friday, the move came after data showed that U.S. producer prices increased moderately in June. Previously Japan's MoF intervened at the end of April and in early May, spending roughly 9.8 trillion yen (\$61.55 billion) to support the currency. However, the yen has since then gone beyond those levels, touching a 38-year low of 161.96 per dollar last week as the

Sell USD/JPY remains in play on possible intervention risk.

INR continued to trade within tight range amid broad-based US Dollar selling.

wide difference between U.S. and Japan rates weighed. While data release by Bank of Japan on Friday showed that the Mof may have spent JPY 3.45 trillion on July 11 to restrict the rapid decline in currency. Japan top currency diplomat Masato Kanda said over weekend that he would not say whether authorities had intervened in the market, however, that the fact that there had been a one-sided, speculative move in exchange-rate fluctuations could not be ignored.

The next major event for JPY will be its monetary policy on July 31 the market is expecting a 10bps hike while any news on bond purchase program will be closely watched. Generally, Japan's central bank usually takes a considered and measured approach to monetary policy with changes happening slowly, so an abrupt and major shift in policy would be out of character. That said, to materially change the yen's direction, something significant is required, most probably the cessation of bond purchases that amount to huge and relentless interventions weakening the yen. The end of bond buys is a remote prospect, and while some reduction seems likely this month, the yen will still be weighed by the bonds purchased in the future. Because so many traders and investors are short yen in the medium term, tweaks to policy might support it for a short-period, but while bond buys continue, it's likely to keep dropping. Technical support for USD/JPY lies at 156.50 levels while it may face selling pressure at levels of 160.50.

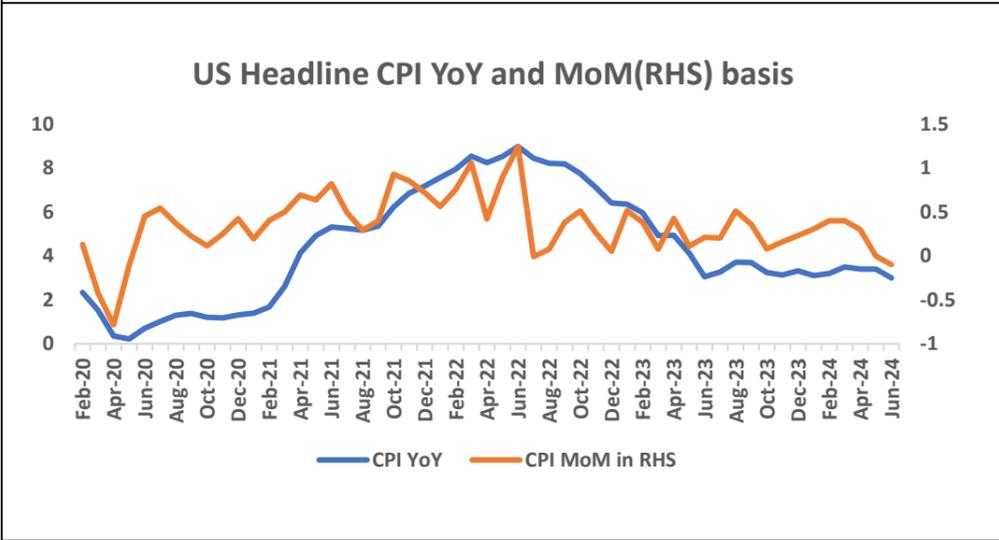
Importers kept USD/INR pair at elevated levels:

The USD/INR pair continued to trade sideways for the week and ended with marginal gain of 0.2%. Although a broad-based selling was seen in US Dollar but the pair remained largely unaffected. The rupee kept consolidating around 83.50 levels with an overall downside bias, led by a softer dollar and inflows in the domestic market, waiting for the RBI to loosen its grip and let the currency appreciate. As, per discussion with the traders, RBI's routine interventions have kept the rupee largely rangebound and have driven near-term volatility expectations to near multi-month lows. Even as we write the Trump shooting incident over the weekend has not affected the pair and is trading flat even most of the Asian pairs declined tracking the weakness in Chinese yuan. Importers and state-run banks have been consistently buying dollars below 83.50 while the upside on the pair remains well-capped near 83.63 levels. India's foreign exchange reserves rose \$5.2 billion to a record high \$657.16 billion as of July 5, data from the central bank showed. Interestingly the actual rise in forex reserves is up to c.\$1.1billion whereas the balance is on account of revaluation. For the coming week we expect the currency to trade with positive bias, technically support remains at 83.23 level and may find resistance at 83.63 levels. (Refer our prev. Report [UniFX-june24](#))

Market Weekly Performance			
Currency	Close	W-o-w Change	Week Trend
DXY	104.08	-0.75%	↓
USD/INR	83.493	0.02%	↑
EUR/USD	1.0904	0.61%	↑
GBP/USD	1.2985	1.35%	↑
AUD/USD	0.6782	0.53%	↑
USD/JPY	157.90	-1.78%	↓

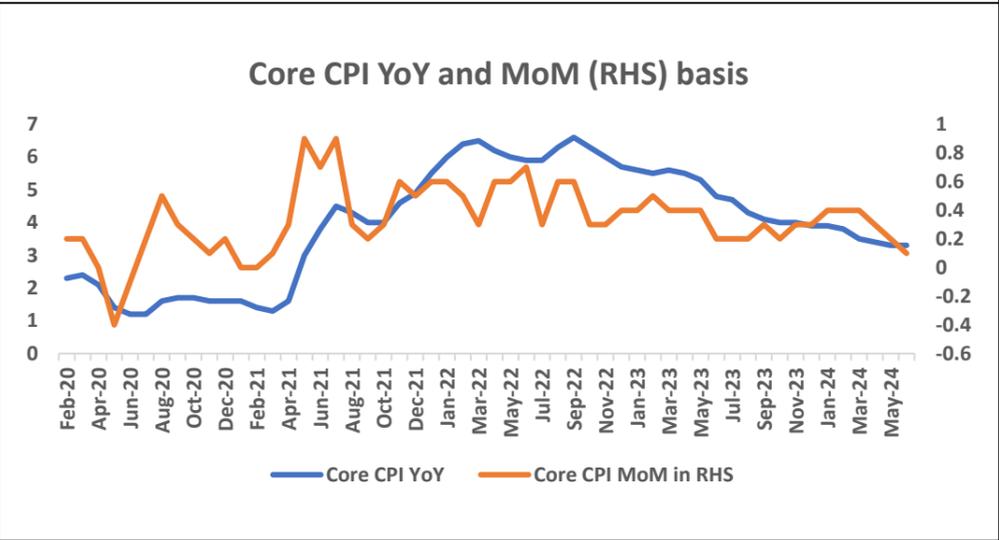
Next Week Economic Indicators						
Date	Time (IST)	Country	Data	Month	Forecast	Previous
15.July.24	18:00	US	Empire State Manufacturing Index	June	-5.5	-6
15.July.24	21:30	US	Fed Chair Powell Speaks		-	-
16.July.24	14:30	EU	ZEW Economic Sentiment	June	48.1	51.3
16.July.24	18:00	US	Core Retail Sales m/m	June	0.10%	-0.10%
16.July.24	18:00	US	Retail Sales m/m	June	-0.20%	0.10%
17.July.24	11:30	UK	CPI y/y	June	1.90%	2%
17.July.24	11:30	UK	Core CPI y/y	June	3.50%	3.50%
17.July.24	18:45	US	Industrial Production m/m	June	0.40%	0.90%
18.July.24	11:30	UK	Claimant Count Change	June	23.4k	50.4k
18.July.24	11:30	UK	Unemployment rate	June	4.40%	4.40%
18.July.24	17:45	EU	Main Refinancing Rate		4.25%	4.25%
18.July.24	18:00	US	Unemployment Claims	July	229k	222k
18.July.24	18:15	EU	ECB Press Conference		-	-
19.July.24	11:30	UK	Retail Sales m/m	June	-0.60%	2.90%
19.July.24	20:10	US	FOMC Member Williams Speaks		-	-

Deflationary pressure at play in US CPI recent months

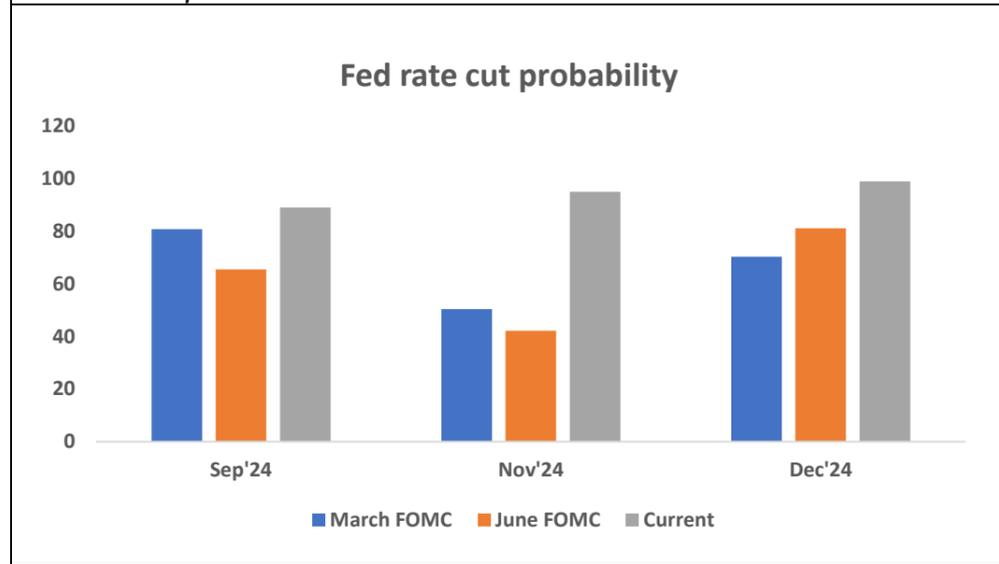


Source: Bloomberg, UBI Research

Core US CPI also showing signs of cooling

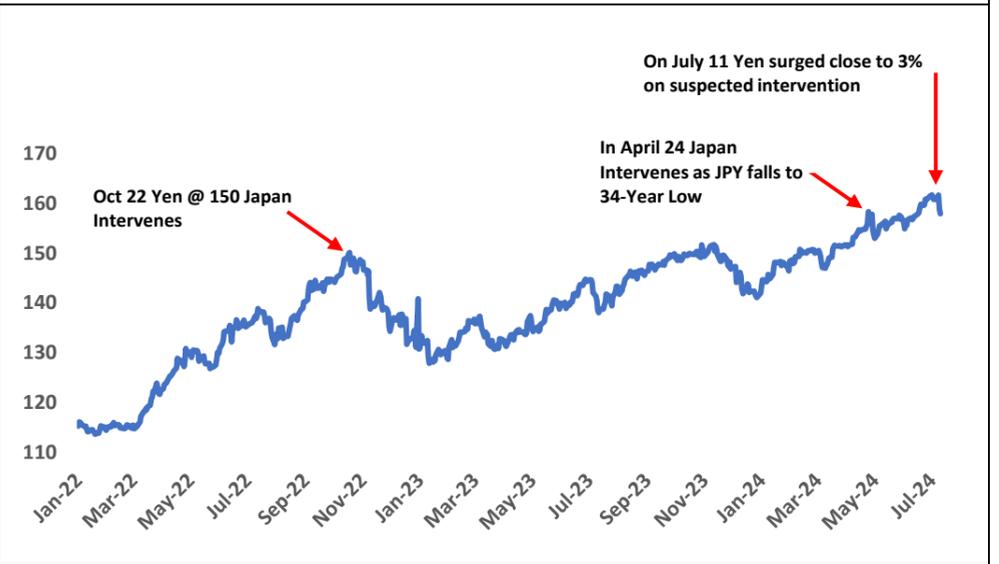


Fed rate cut probability priced in markets (current rate at 5.5%) spikes to 89% in September

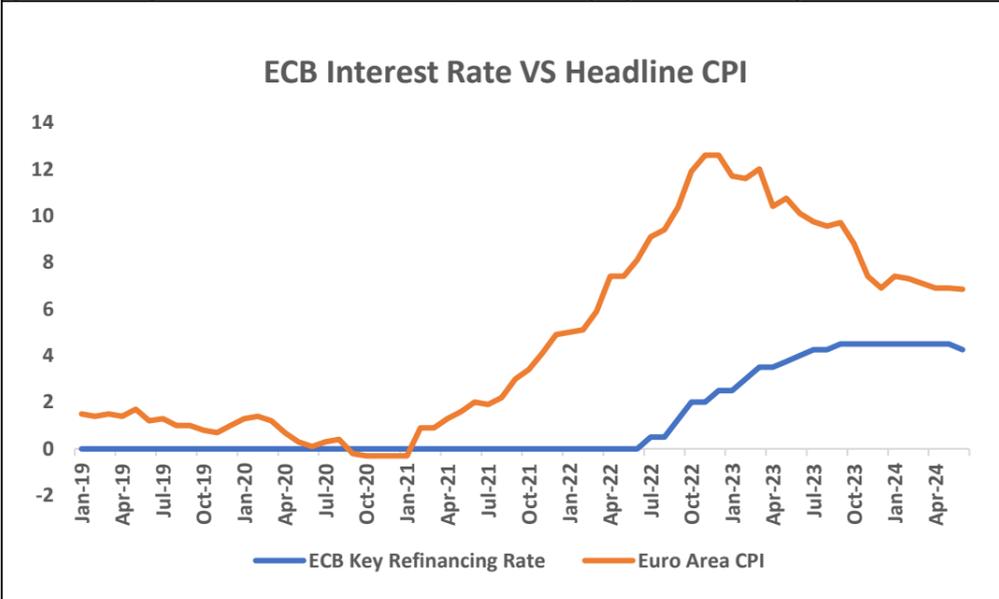


Source: Bloomberg, Reuters

USD/JPY slips below the threshold 160 levels on suspected intervention

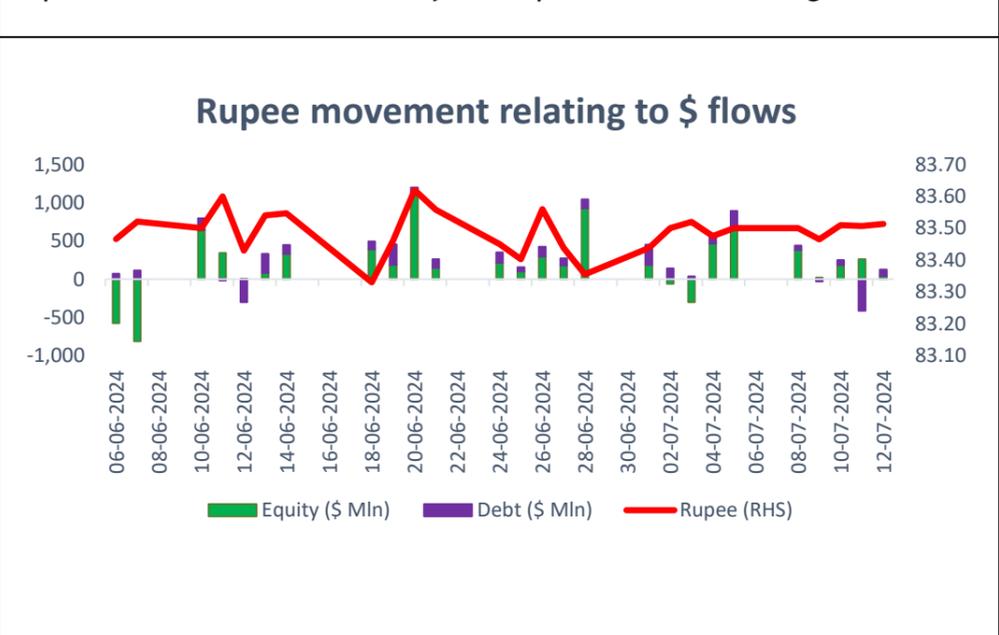


ECB may keep its interest rate at current levels though deflationary pressures persists but service inflation largely remains high.



Source: Bloomberg & UBI Research

Rupee traded the week almost flat despite US Dollar selling



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