Article | 18 August 2026 FX

FX Daily: Energy and long bonds remain points of attention

In an otherwise reasonably benign environment, the drift higher in energy prices and longer-dated bond yields are proving points of attention. Both are mildly dollar-supportive in that they make it difficult to completely dismiss the chances of tighter Fed policy. Having bounced back from range lows yesterday, the dollar can hold gains in the near term

Higher energy prices and long bond yields are providing the dollar with some support

USD: Too soon to be chasing the dollar lower

The DXY dollar index rebounded from the range lows at 99.40 yesterday, showing that the dollar is not quite ready to make a sustained break lower just yet. The two factors providing near-term support are higher energy prices and rising 30-year Treasury yields. Both of these, should they extend, could put a September hike from the Federal Reserve back on the agenda. On the former, news that Washington seemingly has little interest in extending the 60-day ceasefire with Iran has seen oil and gas prices creep higher again. In which direction the next big leg for energy prices emerges is anyone's guess. But higher energy is a dollar positive – both through US energy independence and the Fed's reaction function.

Regarding long-end yields, ING's Rates Strategy team discusses the market here. The fact that 30-year US Treasury swap spreads have not widened suggests that it isn't fiscal concerns driving the move. More compelling is the heavy investment-grade issuance from the US hyperscalers. Here, US IG issuance has just hit a new record for August at $145bn. A big sell-off in the long-end of the Treasury market is typically bad news for emerging market currencies and risk in general. We are not quite at that point yet, but a further rise in yields may increase the pressure on the Fed to act, and this week has seen the pricing of a September Fed hike rise to 9bp from 7bp.

Today's US focus is on July PPI, weekly ADP jobs data, industrial production and housing data. PPI data is probably the most important of this second-tier data, where any upside surprise could lift short-dated US rates and the dollar.

Expect DXY to remain more supported in a 99.40-100.00 trading range.

Chris Turner

EUR: Contained

Yesterday's EUR/USD rally stalled shortly above 1.16, and investors will be reluctant to push it much higher given energy price developments and ahead of the FOMC minutes tomorrow night. Despite recent positive economic surprises in the eurozone, the fact that natural gas prices are close to their highs for the year merits some caution.

On the calendar today should be some mildly encouraging ZEW investor survey expectations and a speech by ECB Chief Economist Philip Lane. Higher energy prices are firming up expectations of a 25bp hike from the European Central Bank in September and keeping views alive of another 25bp hike by early next year.

We could see EUR/USD trade out a 1.1520-1.1580 range today. And a reminder that we have a forecast for 1.17 by the end of September on the view that the Fed does not hike and 1.18 for year-end.

Chris Turner

GBP: A little softer on the jobs data

EUR/GBP has opened up a little firmer on the release of the latest jobs data. Here is what ING's UK economist, James Smith, has to say on the data:

> **Nothing particularly earth-shattering in the latest UK jobs figures. Payrolled employment is down a touch – though this masks big differences between government (which is still actively hiring), consumer services (where job numbers are**

> **consistently falling and the pace of decline is getting worse) and the remaining private sector, which is flatlining. The unemployment rate is up a touch, though the ONS has already revealed there are temporary sampling issues with the labour force survey underpinning it (on top of the well-publicised existing problems), so I'd take that data with a pinch of salt. Private sector pay growth remains below 3%, though the latest month's data was a touch hotter. This is probably the floor for wage growth – and it is actually a touch higher than 3% when you strip out some quirks in the data. Still, the basic story is the same – the jobs market remains cool, and wage pressures are fairly minimal. It suggests little impetus for the Bank of England to hike rates this year.**

The sterling money market curve still prices 60bp of Bank of England hikes into next year. That should slowly be priced out over the next three to six months, although energy prices will have a big say on timing. Next on the UK agenda this week will be tomorrow's July CPI, where a lower year-on-year services number would again slightly favour the position of the BoE doves.

EUR/GBP looks biased to the 0.8570/80 area.

Chris Turner

CHF: Everyone's new funding friend

Low volatility is continuing to weigh on key funding currencies such as the Japanese yen and the Swiss franc. While the yen may be preferred as a funding currency because of its deeper liquidity pools, we think investors will increasingly turn to franc funding – not only for cheaper borrowing costs but also to avoid the risk of sudden yen buying intervention from Tokyo and Washington. And if investors do believe intervention is going to be effective, short CHF/JPY positions will become increasingly popular. This is not only because short CHF/JPY is one of the few ways to express a carry-positive yen view, but because the two currencies have similar investment characteristics.

As to EUR/CHF, a break towards 0.95 probably requires higher oil prices and higher interest rates across the board, where the Swiss National Bank's anchored zero rate policy leads to franc underperformance.

Chris Turner

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Disclaimer