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FX Daily: Lower energy helps Bessent’s plans

Whether lower energy prices were part of Scott Bessent s asymmetric information included in his plans to support long-end Treasuries remains to be seen. But the welcome drop is good news for risk assets and feeds a benign decline in the dollar. Look out for US PCE inflation data today, as well as Nvidia s Q2 earnings release after the close

US Treasury Secretary Scott Bessent

USD: Softer energy helps risk

A week after US Treasury Secretary Scott Bessent's intervention in the US Treasury market, longer-dated yields are some 10-15bp lower. In defending that intervention last week, Bessent claimed that, as Treasury Secretary, he has 'asymmetric information'– i.e. more information than the market. Whether such information includes the path to de-escalation talks in the Middle East remains to be seen, but it is clear that an 8% swing lower in oil prices since last week has helped. Here, Pakistani-brokered peace talks seem to be grabbing the market's attention.

The next test for the long-end comes from today's release of US PCE inflation data, tomorrow's $44bn 7-year note auction and then Friday's Jackson Hole speech from Fed Chair Kevin Warsh.

Please see the views of the ING Rates Strategy team here.

Lower yields have seen interest volatility dip again and feed into lower volatility in FX and equities. Carry remains king and, overnight, one of the popular carry trade targets in the G10 space – the Australian dollar – got a boost when July CPI surprised on the upside. This has increased the chances of a Reserve Bank of Australia rate hike in November.

Back to the dollar. A benign US core PCE print at 0.2% month-on-month should keep the dollar relatively steady today, though the benign risk environment could see some mild dollar losses. 99.00/10 may well cap the topside for DXY and we favour a drift back to the recent lows at 98.60.

Chris Turner

EUR: Schnabel sounds upbeat

Eurozone data releases continue to surprise to the upside. And what is the big surprise is how resilient the eurozone economy has been in the face of this year's rise in energy prices. In fact, the ECB's Isabel Schnabel has today suggested that at September's meeting, the ECB might have to characterise growth risks to the upside. These comments should cement expectations for a 25bp rate hike to 2.50% at the September meeting and can probably retain market pricing of another 25bp hike into early next year.

As a procyclical currency, better growth prospects are obviously good news for the euro and barring any upside surprises with the US core PCE data today, we favour EUR/USD holding support at 1.1650/60 and heading back to the 1.1700/1710 area.

Chris Turner

HUF: Forint recovers

As expected, the National Bank of Hungary cut its policy rate by 25bp to 5.50% yesterday. ING's Chief Economist in Hungary, Peter Virovacz, sees a 4.75% terminal rate here – although the NBH was providing little forward guidance yesterday.

Providing broad support for Hungarian assets is the euro entry story. Part of this will be, at some stage, a re-orienting of the inflation target to 2.00% from its current 3.00%. We are reminded of the great run enjoyed by South African assets last year when the South African Reserve Bank pushed for a lower inflation target (agreed November 2025) at 3.00% from 4.50% prior.

We currently have year-end forecasts for EUR/HUF and ten-year Hungarian Government bond yields at 3.50 and 4.75% versus levels today at 3.60 and 5.43%.

Chris Turner

CNY: Slowdown in pace of appreciation?

After a sharp run lower last week, USD/CNH is consolidating this week. Two factors may be discouraging investors from buying the renminbi at these levels. The first is that the People's Bank of China (PBoC) seems to be slowing the pace of lower fixings in USD/CNY, perhaps expressing some displeasure over the pace of renminbi gains recently.

The second is some fears that the new round of US sanctions on Iran will upend the economic détente between the US and China. We think it is probably too early to expect any US sanctioning of any major, state-sponsored Chinese entity relating to Iran trade, but the market will be watching.

Currently, our base case assumes a gently offered dollar environment and USD/CNY edging lower towards 6.70 over the coming months.

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