Economist's Weekly Market View

Tuesday, July 30th, 2024

Plenty for markets to digest

Despite being in the midst of the summer holiday season, political events, macro data surprises, central bank commentary and global trade tensions have meant that the normal lull that tends to set into markets around this time of year, has been absent so far. On the political front, investors have been digesting the outcome/implications of elections in France and the UK as well as getting their heads around the raft of developments in the US Presidential campaign.

Data-wise, it has been noticeable over recent weeks, that despite the US Q2 GDP number printing ahead of forecasts, the majority of US activity indicators have tended to disappoint versus expectations. Meanwhile, both headline and core CPI inflation for June registered lower than expected readings and provides evidence that price pressures are easing in the US economy. Indeed, Fed Chair Powell commented during the month that it appears the economy is "getting back on a disinflationary path".

From a Eurozone viewpoint, the macro indicators released in July have tended to surprise to the downside of expectations, which has been the trend for much of the last 12 months. In contrast, UK macro data have been exceeding expectations and are consistent with some positive momentum for the UK economy.

Against this macro backdrop, US rate expectations have softened compared to where they started the month. The market is now expecting the first rate cut from the Fed by September and is anticipating at least 50bps of easing by year end. The combination of weaker macro data and the softening in rate expectations has created a more challenging backdrop for the dollar over recent weeks.

At the same time, better than expected UK macro news and the potential for a period of political stability, have been supportive of sterling. In level terms, EUR/USD rose to a high of $1.0947 in mid-July. Meanwhile, GBP/USD registered a year-to-date high at $1.3044 mid-month, while EUR/GBP edged back nearer to 84p.

However, some risk aversion/safe haven demand linked to US/China trade tensions has provided support to the dollar over the last week or so. EUR/USD has been unable to sustain the move above the $1.09 threshold and GBP/USD is back below $1.29.

The most notable mover though among the FX majors in July has been the Japanese yen. It spent the early part of the month very much on the defensive, as market rate expectations worked against the currency. This saw USD/JPY reach 36-year highs just below the ¥162 threshold.

However, since the apparent FX intervention from Japanese authorities on July 11th, combined with growing expectations of some Bank of Japan policy tightening at its upcoming meeting, the yen has gained around 6% on the exchanges.

In short, it has been an eventful few weeks on the currency front, and it's not over yet, with some key events and data due over the coming days. This includes central bank meetings from the US Fed, Bank of England and Bank of Japan as well as the US payrolls (jobs) number for July.

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