

Big week of big event risks

FX price action this week will be driven by a stream of key event risks, including a US–North Korea Summit and meetings of the Federal Reserve and European Central Bank



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USD: Dollar to stay bid during the first part of the week

Despite the G7 summit managing to underwhelm very low expectations and President Trump threatening auto tariffs, the spillover into risk assets has been rather limited, with Asian FX stable overnight and EUR/USD modestly up (despite the fact that the euro is sensitive to the threat of car tariffs). Although the overhang of global trade wars is still very much alive, the global FX price action this week will be driven by the stream of key event risks:

- US–North Korea Summit (Tuesday)
- FOMC meeting (Wednesday)
- ECB meeting (Thursday)

The first two, in particular, pose some downside risk to the already fragile risk environment via the potential risk off channel or prospects of even higher USD funding costs, respectively. All this suggest a generally supported USD, particularly during the first part of the week.

EUR: ECB providing a floor under EUR/USD

The event of the week for the euro is the ECB meeting (Thursday), with central bank officials' recent communication actively shifting market expectations towards a somewhat more hawkish outcome. We now expect the ECB to announce a reduced extension of QE by one more quarter to end-2018 and cut monthly purchases from €30bn to €10bn. While this should be euro positive and partly counteract the potentially more hawkish FOMC bias (Wednesday), a retention of the open-ended QE programme should prevent a material euro rally.

GBP: Stable sterling ahead of Tuesday's vote

We expect fairly neutral GBP trading today ahead of Tuesday's UK parliament vote on amendments to the EU withdrawal bill. There is a chance the government loses one of the key votes, such that parliament, after all, does have a chance of a 'meaningful' say in the final Brexit deal. This would lessen the chances of a hard Brexit and could again help sterling. On the data front, April UK industrial production should remain unchanged today from the previous month, thus having a fairly limited impact on GBP.

CZK: May CPI the last ingredient for the June CNB hike

May Czech CPI inflation is the last crucial data point ahead of the Czech National Bank meeting on 27 June. Following the robust 1Q wage growth, we see Czech May CPI inflation moving back above the 2% target (to 2.1% YoY) given the rise in oil prices and the likely modest acceleration in food prices. This, coupled with a very weak Czech koruna (which is materially softer than the CNB forecast pencils in, suggesting monetary conditions are too loose) and signs of an overheating economy point to a rate hike in June. Given the fragile external environment, the spillover into EUR/CZK should be limited (as was the case following the hawkish comments from CNB board members last week).