

FX Daily: All to play for with the core PCE deflator

Having bounced around in ranges all week, the dollar has a decent chance to embark on a new trend. The data-dependent Fed means that the April core PCE deflator will be an important market mover should it deviate away from the consensus 0.3% MoM reading. We also look for a weaker Canadian dollar ahead of our call for a Bank of Canada rate cut next week



➔ USD: Looking into second decimals again

Such is the interest in today's April core PCE inflation number, market surveys are now being conducted to the second decimal. Consensus looks evenly split across the four MoM buckets of 0.15-0.20%, 0.20-0.25%, 0.25-0.30% and 0.30-0.35%. Where the actual release lands will determine whether we are entering a new chapter for the Fed disinflation story or whether it remains trapped in the wreckage of sticky inflation.

The dollar goes into the release in the middle of this week's range after yesterday's slightly softer first-quarter US GDP revision dragged US rates lower across the curve. All we can say at this stage is that DXY has important support at the 104.35/40 area, and a close below it would put an end to

this year's dollar bull trend which is currently running at an 8% annualised pace. 105.30/50 would be the DXY target on a hotter inflation print.

Chris Turner

In Canada, expectations are for a good GDP print today, with annualised growth at 2.2% in 1Q after a modest 1.0% in 4Q23. The country's growth momentum has improved of late, but we doubt this will have a huge influence on the timing of the Bank of Canada's first cut, which we expect to come already next week thanks to the recent decline in inflation ([more details in our BoC preview](#)).

Francesco Pesole

➔ EUR: May Eurozone CPI in focus

The highlight of today's eurozone calendar is the May CPI release. This is the last important piece of data before next Thursday's ECB meeting. We very much doubt that today's release has any bearing on the ECB's planned 25bp rate cut next week, but it could provide some [context](#) for the debate over a series of, or just a single rate cut. Our eurozone economists are actually forecasting a sub-consensus new cycle low of 2.6% YoY for the core reading.

With one-month-traded EUR/USD volatility plumbing the depths near 5%, today's data releases will really have to shock to elicit a big move in spot. Lower US rates and a softer dollar would make life a whole lot easier for the global economy, and the next move out of the 1.0800-1.0900 range looks likely to establish the next near-term trend.

Chris Turner

➔ CHF: SNB's Jordan changes his tune

The Swiss franc had a strong rally yesterday. Driving that was the better than expected first quarter GDP release and particularly less dovish comments from SNB President Thomas Jordan. Travelling in Asia, Mr Jordan said that the biggest risk of higher inflation stemmed from a weaker Swiss franc. That seemed quite a reversal from his position at the start of the year that Swiss franc strength had tamed inflation.

His headlines on the risk of higher inflation have poured some cold water on views that the Swiss National Bank will cut rates again next month. Just a few weeks ago the market attached an 80% probability to a cut. That probability has now dropped to just 33%. We picked up this sentiment on a recent trip to Switzerland - namely that back-to-back rate cuts from the SNB were far from a done deal. As an aside, Thomas Jordan's term as president ends in September, and we hear from locals that vice-chairman Martin Schlegel is likely to get the top job. Any other name would be a big surprise.

The slightly hawkish twist from the SNB has sent EUR/CHF back below 0.9800 for the first time in a couple of weeks. We think the SNB is a long way from resuming large scale FX sales to drive the Swiss fran stronger - as it did through 2022 and 2023. However, these hawkish remarks suggest it could spend some more time in the 0.97-0.98 area.

Chris Turner

📉 CEE: The main leg of the sell-off behind us but further weakness more likely

Friday should be quiet like the rest of the week in the CEE region in terms of the economic calendar. At least we will see some releases today. Hungary's PPI for April was released this morning. Later today we will see GDP data in the Czech Republic and Turkey for the first quarter. In the Czech Republic, today's data should confirm the 0.4% YoY released earlier. If anything, it should be an upward revision given the positive monthly data for March. In Turkey, flash data will be released. We expect 5.7% YoY for 1Q, slightly below market expectations. GDP will likely be relatively strong due to fiscal effects and the minimum wage hike.

In the last two days in CEE and EM globally, the FX market has been selling off, and although the main move is probably behind us, we would still expect more weakness in the region. HUF confirms our preference for now with a depreciation of more than 1% in the last two days. On the other hand, the CZK seems the most resilient. The PLN market was closed yesterday, and today rates are likely to catch up with the receiving flow we saw earlier in the rest of the region. This should lead to further weakness in PLN today. Overall though, our preference remains unchanged, with HUF most exposed to weakness, while in the case of PLN we believe weaker levels will soon bring in new buyers to market.

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