

FX Daily: Fed not rocking the boat for risk assets

Expect the Fed to err on the side of caution given the uncertainty about the recovery. We think the potential indication of a 2022 hike in the new forecast is more likely to do with dispelling the odds of negative rates rather than the potential for a meaningful policy reversal.



Source: Shutterstock

📌 USD: Fed not rocking the boat for risk assets

The key focus of the day is the FOMC meeting.

Following the [stunning US May employment report](#), there is a degree of uncertainty whether the Federal Reserve considers the improvement in data as an opportunity to signal a less loose monetary policy and thus take the liquidity punchbowl away from markets. We don't think so.

According to our [economists Fed preview](#), we expect the Fed to err on the side of caution given the uncertainty about the recovery, with the central bank unlikely rocking the boat for risk assets. While the new set of economic forecasts is published, given the huge amount of uncertainty the Fed is likely to refrain from, firm forward guidance. The potential indication of the 2022 hike in the

new forecast is more likely to do with dispelling the odds of negative rates rather than the potential for a meaningful policy reversal.

All this should keep the dollar soft and further help to facilitate the general widespread USD bear trend as the mix of the Fed's accommodative policy stance, the gradual recovery in the global economy and the stretched USD valuation weigh on the dollar in the months to come.

[Fed meeting preview](#)

EUR: Cautious Fed opening further upside risks to EUR/USD

The cautious Fed keeping the policy firmly accommodative poses an upside risk to EUR/USD (as well as to most G10 FX vs USD) and risks EUR/USD testing the 1.1400 level later today.

In Norway, May CPI printed a touch higher than expectations but what matters the most for NOK is the general risk environment. The cautious Fed should drive EUR/NOK to the 10.40 level.

GBP: Driven by risk appetite supporting the Fed today

Market sentiment supporting the Fed may send GBP/USD above the 1.2800 level today but given the UK-EU trade negotiations overhang, GBP/USD is set to lag EUR/USD in terms of gains in upcoming months.

CZK: Falling inflation, but koruna still the most attractive CEE currency

Czech CPI should strongly correct lower, from 3.2% year on year previously to/below 2.5% in May due to the mix of the VAT reduction and base effects.

This is in line with the global and local CEE trend where Covid-19 related disruptions are pushing inflation dynamics lower. The ongoing correction of the previously well above-target inflation will further allow the central bank to continue fully focusing on the domestic economy and deliver one last rate cut in upcoming meetings. Still, the effect on CZK should be limited as this is priced in.

We continue to see CZK as the most attractive CEE currency, benefiting from a strong fiscal position, the inflation minded central bank (which reduces the scope for ultra-dovish steps seen in Poland and previously in Hungary) and, in our view, fairly low odds of FX interventions to stem the possible currency strength.