

Daily FX Strategy: The race to the bottom

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Source: Shutterstock

⬆️ USD: Currently losing in the race to the bottom

Following the materially dovish shift in the European Central Bank's stance over recent weeks (preceded by a U-turn in Fed rhetoric earlier in the year), the Reserve Bank of New Zealand moved up a gear and, following a rate cut in May, announced that it is revisiting its strategy for unconventional policy. With close to three Fed rate cuts already priced in for this year, the dollar has been gaining across the G10 FX space overnight, as other global central banks step up their dovish rhetoric. Should US frustration with the strong/er dollar grow, [one sided US FX interventions cannot be ruled out](#).

➡️ EUR: Under pressure ahead of the ECB July Meeting

Eurozone July Consumer Confidence should remain close to multi-month lows, keeping dovish expectations for the upcoming ECB meeting in place (see [EUR & ECB: Facilitating the downside to the euro](#) for the ECB scenario analysis). We expect EUR/USD to continue trading on the soft side

going into the ECB July meeting this Thursday and look for the cross to test 1.1100 this week.

↓ **GBP: Sterling under pressure as Johnson likely be confirmed as new PM**

Boris Johnson is likely to be confirmed as the next Conservative leader today (the leadership outcome to be announced around 11am). Resignations of various ministers (who disagree with Johnson's hard Brexit rhetoric/stance - i.e. Hammond, Gauke) are expected to follow immediately thereafter, putting additional pressure on GBP. The appointment of new senior cabinet figures should occur tomorrow evening, with more pro-Brexit candidates being appointed. This suggests an overall downside bias to sterling in coming days.

→ **HUF: NBH on hold and stable HUF**

The National Bank of Hungary is set to remain on hold today as domestic and external factors suggests there's no need to tighten policy (vs market pricing of multiple hikes over the coming two to three years). We look for a stable EUR/HUF, settling around the 325 gravity line in coming months. This is because (1) a normalisation in Hungarian headline CPI lower should ease concerns about the NBH's credibility; (2) the attractiveness of Hungarian government bonds should also positively spill over into FX (as some investors may prefer unhedged exposure); while (3) the speculative community still remains fairly short the forint (even after the sharp correction in EUR/HUF lower in June). We prefer exposure to local bonds / rates rather than to the currency as the trade war risk is still present and the ECB QE effect should have more positive spill-over into local fixed income than into FX (as was the case in 2014-15 prior to the first ECB QE).