

## FX: ECB minutes to feed market doves?

Any hint of a possible shift in the European Central Bank's forward guidance – possibly at the late July meeting – will put the euro under pressure



European Central Bank  
HQ, Frankfurt

Source: Shutterstock

### ➔ USD: CPI should avert another leg lower

Yesterday's testimony by Federal Reserve Chair Jerome Powell and the FOMC June minutes helped defy the (very few) remaining doubts that a rate cut is coming at the end of this month. This triggered a broader repricing across the curve, with the OIS curve shifting down by about 10 basis points in the 3-month, 6-month and 9-month tenors. However, US dollar weakness is unlikely be extended today, when focus will be on the June inflation report. Our economists expect headline inflation to slow down – mostly triggered by low gasoline prices – while core CPI should stabilise at 2%, in line with the market consensus. In light of the dovish repricing overnight we may need to see a materially weaker reading to keep pushing the USD down further today. Elsewhere, Powell's second day of testimony should have very limited surprise potential. In turn, we expect DXY to stay close to the 97.00 area today.

### ⬇ EUR: Calendar suggests downside risk

The euro has posted the smallest gains among G10 currencies amid the US dollar's sell off in the

past 24 hours. Today's calendar is likely to keep further EUR/USD upside limited. The key event is the release of the ECB June minutes, where any hint of a possible shift in forward guidance – possibly at the late July meeting – will keep a lid on the euro. Some further pressure may also come from remarks by the ECB's Benoit Coeure (1115 GMT) should he reiterate his recent openness to another round of quantitative easing. The balance of risks for EUR/USD seems skewed to the downside and the pair may fall back below the 100-day moving average (1.1256) during the day.

## ➔ GBP: EUR/GBP should stay below 0.90

Bank of England policymaker Silvana Tenreyro backed the market's dovish expectations (23 basis points of easing expected by end-2020) indicating that the inflation outlook may not justify a rate hike. The OIS curve was broadly stable on the comments. Meanwhile, former Prime Minister John Major has threatened a judicial review should Boris Johnson bypass parliament to force a no-deal exit. The option of suspending parliament continues to face fierce opposition across UK politicians, which may keep no-deal Brexit probabilities in check for now. In turn, GBP may consolidate current gains versus the USD today, while holding below 0.90 against the euro.

## ⬆️ SEK: Will inflation move the curve?

In its 3 July monetary policy meeting, the Riksbank hinted at a 2019 rate hike. Nonetheless, a stubbornly flat OIS curve suggests the market is reluctant to embrace such tightening prospects. Today's release of the June CPI report should create some short-term volatility in the Swedish krona but only a significant upside surprise is likely to move rate expectations. The risk for EUR/SEK today lies to the downside, with the pair possibly testing the 10.592 100-day moving average support level.

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