Inflation unlikely to come to the euro's rescue

The G20 meeting tomorrow and German June CPI released today will set the tone for the single currency

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USD: Steady before the G20

The dollar has been supported across the board overnight, in particular versus low-yielding safe havens (Japanese yen and Swiss franc), as media reports of a possible US-China trade truce lifted risk appetite. Today's data releases include the third reading of 1Q GDP and 1Q PCE, which should have limited market impact. The USD price action should be characterised by a holding stance ahead of Saturday's Trump-Xi meeting. If anything, some focus will be on the 7y notes auction, after yesterday's disappointing 5y auction added pressure to Treasury yields.

EUR: German inflation to set the tone

Falling inflation expectations and headwinds in global risk sentiment have been two key drivers of falling ECB rate expectations. The coming days will therefore be crucial to set the tone for the euro, with the G20 meeting kicking off tomorrow and German June CPI to be released today (eurozone numbers will be published tomorrow). German inflation should rebound from weak numbers in May, but our economics team sees little risk for an upside surprise and expects the headline YoY reading at 1.3%, slightly below consensus (1.4%). This may translate into a somewhat weaker euro on the day. In turn, EUR/USD may break the key 200-day moving average 1.1346 level - which proved to be a solid support yesterday – thereby paving the way for a sharper leg lower. Nonetheless, declines may be short-lived as it remains hard to envision more sustained weakness in EUR rates. This is especially true considering that bund yields are close to all-time lows and 15 basis points of ECB easing are already priced in by end-2019.

GBP: Back to a holding attitude

Sterling is likely to stay range-bound today given the absence of major events. It will likely be up to any additional Brexit-related clarification by front-runner Boris Johnson to trigger another break above 1.27 in GBP/USD.

MXN: Banxico could disappoint the doves

As Banxico announces monetary policy today, our economics team expects that rates will be kept on hold at 8.25%, in line with the market consensus. This should shift the attention to forward looking language, especially since the recent dovish turn by the Fed reinforced expectations that Banxico will follow with an easing cycle of its own. Some 27 basis points of easing by year-end is already priced in the Mexican peso swaps curve, along with an additional 26bp by June 2020. In turn, today's rate announcement may disappoint market's dovish assessment and may set USD/MXN on a more prolonged downtrend if – as we expect – rates will not be touched at least through the end of this year.

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