

## EUR: Priced for dovish perfection

The series of ECB speeches will continue today in Sintra but we think the scope for further euro weakness is limited



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### EUR: Priced for dovish perfection

The ongoing series of ECB general council member speeches will continue today in Sintra. Following the dovish tone of the ECB meeting last week and arguably even more dovish comments yesterday (such as remarks from the ECB's Erkki Liikanen that rates can remain on hold even after the summer of 2019 if needed), the scope for further euro weakness stemming from the ECB policy stance seems very limited at this point. The dovish ECB and its implications for the reaction function of some regional central banks (be it the Riksbank or the Polish central bank) coupled with the fragile risk environment is in fact supportive of the euro against these regional currencies, as the euro is the local safe haven and the market has been re-pricing these central banks towards a more dovish stance.

### USD: Weak case for long EM FX positions

Risk assets are taking a pause for breath following yesterday's sell-off in response to the escalating trade war (i.e. the US threat to impose a second round of tariffs on China). With the risk to trade firmly in place, we don't look for a material and long-lasting rebound in higher beta and emerging markets currencies. Rather, the trading environment should remain fragile, making the case for

long EM FX positions a weak one.

## **GBP: The “meaningful vote” on a Brexit deal**

The focus in the UK is on a "meaningful vote" on the final Brexit deal in parliament. Should the government lose and parliament win a meaningful vote on Brexit (implying a cushion against a cliff-edge Brexit), this would be positive for the pound, with EUR/GBP likely testing June's low of 0.8718. Yet, warnings about a possible government collapse over the vote should limit any material GBP upside.

## **HUF: The forint's rebound to be short-lived**

We don't see yesterday's central bank shift from the ultra-dovish to dovish stance (implying a mirroring of the ECB stance) as a strong enough change to cause a persistently stronger forint. The first step away from loose monetary conditions is still likely to be the exit from QE and MIRS, which won't happen until the end of this year. Still, the market expects more, as per Bubor pricing. We thus see the HUF rebound to be very short-lived as (a) the external environment remains challenging; and (b) market participants should realise that without a weaker HUF, more meaningful tightening of monetary conditions won't be delivered. In fact, the latter may eventually lead to HUF weakness and EUR/HUF may move towards the 330 level.