Is the worst over for the euro?

We think the euro will be supported this week by stronger economic data and a resolution to the political stalemate in Italy

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EUR: The worst seems to be over

We suspect EUR/USD seen its bottom at 1.1510 and is unlikely to re-test it this week. With the Italian political situation stabilising, the eurozone risk premium should now be less of a negative driver of EUR/USD. Indeed, the risk premium already narrowed from 4% on Tuesday to 2.5% currently. The euro should obtain some support from the forthcoming domestic economic data, namely the eurozone April retail sales (Tuesday) and a batch of German industrial data, which should point to a rebound in the second quarter and, in turn, support the euro. We look for EUR/USD to stay in the 1.1600-1.1840 range this week.

USD: G7 or G6+1?

With a calmer week on the US data front, the main focus shifts towards the prospects of a global trade war following the US decision to impose steel and aluminium imports tariffs on EU, Canadian and Mexican imports. The G7 summit in Canada (or G6+1 as French finance minister Bruno Le Maire pointed out) and the run-up to it should be the main source of headline news this week. However, barring any material escalation, the general risk appetite may not suffer too much given the expected solid economic data from both US and eurozone and the political stabilisation in Italy (and large BTP sell-off already behind us).

CZK: Solid wage growth to point to June rate hike

Today's first quarter wage growth is one of the two key Czech data points ahead of the June central bank meeting (the other being May CPI next Monday). We look for a further acceleration in wages, with real wage growth above 6.5% year-on-year, the strongest level in 15 years. Coupled with (a) the likely rise in May Czech CPI back to the 2% YoY target; (b) the meaningfully weaker Czech koruna vs the Czech National Bank's own forecast, the odds of the June rate hike are rising meaningfully. EUR/CZK may briefly dip closer towards 25.70 today but gains should be limited given the challenging environment for central and eastern European FX.

TRY: Inflation to push above 12%

We expect Turkey May CPI inflation to come in at 1.7% month on month, pulling the annual figure up to 12.2% year on year from 10.85%. This stems from the recent depreciation in the lira, which has raised prices for core goods, energy and domestic producer prices. While yet another CPI increase is not TRY positive, it keeps alive the possibility of a hike during the June MPC meeting this Thursday (we don't rule out a measured 50bp hike in the one-week repo rate). A hike this week would be TRY supportive and seen as another step by the CBT towards regaining its inflation targeting credibility.