

## Fed keeps dollar upside in check

The dollar pauses following Wednesday's Fed meeting. The focus now turns to eurozone inflation data and a decision from Norges Bank



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### USD: FOMC keeps dollar upside in check

The dollar is pausing for breath following yesterday's FOMC meeting which failed to reinstate bullish US dollar sentiment ([see FOMC Review](#)). With the Fed reiterating its gradual approach to tightening and reinforcing its "symmetric" approach to inflation targeting (meaning that the alarm bells are not necessarily ringing despite inflation being around the 2% target) the bar for a material shift towards a more hawkish Fed stance is still high. This is particularly the case given the already meaningful market pricing, with investors pencilling around 60bp worth of hikes for this year and additional 40bp for the next year. Hence, we don't see material scope for a protracted and persistent USD rally from here (particularly in the context of the non-negligible moves already observed).

### EUR: Eurozone CPI to modestly weigh on euro

The focus turns to the eurozone April inflation today. Given the already published individual inflation readings from various eurozone economies, both headline and core are set to decelerate modestly. While this is not EUR positive, the outcome shouldn't come as a surprise and lead to a material EUR decline. EUR/USD should stay above 1.1900. The EU Commission published a new EU

budget proposal yesterday. As we discuss in [CEE and the new proposed EU budget](#), we don't see it as negative for the central and eastern Europe outlook. The passage of the 'rule of law' clause - which would limit the payment of cohesion funds to countries in breach of the clause- seems unlikely in its current form, in our view.

## NOK: Norges Bank on course for a 3Q18 hike

Our economist expects the Norges Bank to stay on hold today but remain on track for a hike in 3Q18 (also note that no new forecasts or press conference is scheduled for today's meetings – [see NB Preview](#)). With the Norwegian krone under pressure due to the external environment (despite the hawkish NB and higher oil price), today's meeting should have a limited impact on EUR/NOK. We see the most upside to NOK against the Swedish krona, which is under chronic downside pressure. In our view, it is just a matter of time before NOK/SEK persistently breaches above the 1.1000 level.

## CZK: Weak koruna supports case for 3Q18 rate hike

[As per CNB Preview](#), we expect the Czech National Bank to intentionally retain its non-committal dovish bias. We look for a modest upward revision to the end-2018 EUR/CZK forecast, with the 2019 CPI outlook to be revised higher, too. No rate hikes should be signalled for this year (an unrealistic assumption considering the CNB projected koruna strength). Given the current CZK weakness and the lack of tightening via the FX channel, our conviction in our call for a 3Q18 hike is rising. The CNB restarting its tightening cycle should eventually support CZK and bring EUR/CZK toward / below the 25.00 level by the end of the year.