

FX: Asymmetric risk to the dollar from US CPI

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📉 USD: Asymmetric risk to the dollar from May CPI

With the Fed in data-dependent mode, the focus turns to US May inflation today. The headline number may dip and even undershoot core CPI, as gasoline prices declined in May. If core CPI surprises on the downside again, this will likely support current market expectations for Fed easing. Overall, the effect on the US dollar is likely to be asymmetrical, as the market is likely to look through any upside surprise to CPI (given the focus on upcoming US-China trade talks and the risk of further tariffs) while any downside surprise should increase expectations of more imminent Fed easing.

📈 EUR: EUR/USD 1.1365 200-day MA resistance in sight

The key EUR/USD driver today should be US May inflation. The focus is also on President Mario Draghi's speech in Frankfurt this morning, though a major deviation from the tone of last week's ECB press conference is not expected because little has changed since then (except a slight positive in the form of a US-Mexico agreement). Given the asymmetric risk stemming from US CPI,

the key level for EUR/USD to watch today is the 1.1365 200-day moving average resistance.

↓ BRL: No reprieve from the economic data

In Brazil, our economists expect soft April retail sales, consistent with another contraction in GDP. Domestic demand has disappointed greatly this year and the poor activity data is pushing the central bank to defend its rate position, indicating that the reason for the poor activity is the high level of uncertainty, represented chiefly by uncertainty over the approval/outlook for fiscal consolidation, especially social security reform. If and when the reform is approved, the central bank should be able to cut rates. This should prevent an excessive appreciation of Brazilian real (resulting from the reform approval).

↑ TRY: CBT on hold modestly supportive of TRY today

As per our [CBT Preview](#), our economists expect the Turkish central bank to remain on hold again and keep the one-week repo rate at 24%. This is despite the fact that the swap curve suggests a modest policy easing in the period ahead given improving price pressures and recent strength in the Turkish lira. The CBT will likely maintain its current policy stance and avoid any premature policy rate adjustment in order to maintain price and general financial stability. The on-hold decision should be modestly supportive of TRY today.