

## FX Daily: A close call on the Bank of Canada today

We expect a hawkish hold by the Bank of Canada today, but pressure on policymakers to hike has risen and it's admittedly rather a close call. We don't think it's a make-or-break event for CAD – but we should keep an eye on the implications of a hike for the broader market and the dollar. In the CEE region, the main focus will be the NBP press conference



### ➔ USD: Lack of domestic factors

A quiet data calendar has left the pricing for the Federal Reserve's June meeting little changed, with a 20-25% implied probability of a hike after the [soft ISM services](#) figures on Monday. That and the generally supported environment for equities haven't triggered any substantial dollar correction though.

The market's bearish mood on European currencies remains the prevailing theme, and the dollar's resilience probably denotes reluctance to add dollar shorts ahead of the US CPI risk event on 13th June – which is still seen as having the potential to tilt the balance to a hike the following day.

We think markets will watch the Bank of Canada decision (which we discuss in detail in the CAD section below) with great interest today. Following the [Reserve Bank of Australia rate hike](#) yesterday, another hawkish surprise from a developed central bank in the run-up to the FOMC meeting could cause the revamp of some hawkish speculation, especially considering Canada's economic affinity with the US.

Given the lack of other market-moving events today, a BoC hike could end up supporting the USD too. But, as discussed in our [BoC preview](#), we expect a hawkish hold – in which case the spill-over into the dollar may not be very material given that should be insufficient to prompt markets to price out the implied chances of a Fed June hike currently embedded in the USD curve.

*Francesco Pesole*

## ➔ EUR: European currencies still unloved

The euro continues to suffer from a softening inflation story in the eurozone. Yesterday, April's report on consumer expectations showed a considerable drop (12-month gauge down to 4.1% from 5.0% in a month), which triggered a rally in the euro area's front-end yields. This has prevented any re-tightening in the 2-year EUR-USD swap rate gap, despite the slight decline in Fed hawkish expectations after Monday's US ISM numbers.

While easing inflation should build a case for the doves, ECB communication has not seen drastic changes as we head into next week's policy announcement. Yesterday, President Christine Lagarde reiterated her call for more tightening, and her hawkish tone is probably a key factor keeping markets attached to the 40-45bp pricing for the July meeting. We have other speakers to keep an eye on today. Barring major dovish remarks, and unless a BoC hike has a positive spill-over on the dollar, we feel EUR/USD can remain anchored to 1.0700 for now.

Elsewhere in Europe, pressure on Scandinavian currencies has resumed. EUR/SEK is trading at 11.684 this morning: the intra-day all-time print is at 11.79, and as we have reiterated multiple times in recent publications, the lack of any support from the Riksbank is making it hard to pick a top for the pair in the near term. The financially-distressed Swedish landlord SBB is reportedly denying rumours about discounted sales of its business units, but a default warning from creditors has emerged and the centrality of the firm in the Swedish real estate space means more risk premium (related to a property market collapse) could be priced into SEK now. A recovery for the krona seems unlikely in the near term.

*Francesco Pesole*

## ⬇ CAD: Our call is a BoC hawkish hold today

The Bank of Canada moved considerably earlier than other central banks to the dovish side of the spectrum and has kept rates on hold since January. Now, stubborn inflation, an ultra-tight labour market and a more benign growth backdrop are building the case for a return to monetary tightening. Markets are attaching a 45% implied probability that a 25bp hike will be delivered today.

While admitting it's a rather close call, we think a hawkish hold is more likely ([here's our full meeting preview](#)), as policymakers may want to err on the side of caution while assessing the lagged effect of monetary tightening. We still expect a return to 2% inflation in Canada in the early

part of 2024 with the help of softer commodity prices. Developments in the US also play a rather important role for the BoC: recent jitters in the US economic outlook (ISM reports recently added to recession fears) and the proximity to a “toss-up” FOMC meeting would also warrant an extension of the pause.

Still, we expect another hold by the BoC to be accompanied by hawkish language. Markets are pricing in 40bp of tightening by the end of the summer, and we doubt policymakers have an interest in pushing back or significantly disappointing the market’s hawkish expectations given recent data. So, as long as a hold contains enough hints at potential future tightening, we think the negative impact on CAD should be short-lived and we keep favouring the loonie against other pro-cyclical currencies in the current risk environment.

*Francesco Pesole*

## ⬇️ CEE: Dovish NBP leads us to bearish view on zloty

Today, another series of economic data from the CEE region continues. Industrial production data will be published in Hungary and retail sales for April in the Czech Republic. Later, the Czech National Bank will release intervention numbers for April – but it can be assumed that the central bank was not active in the market given the current EUR/CZK level. The last time the central bank intervened in the FX market was last October.

Later today, at 3pm local time, we will see a press conference from the Governor of the National Bank of Poland. As expected, rates remained unchanged yesterday and the statement didn't show anything new either. Today's press conference will be the main focus of the market and we can expect a rather dovish tone supported by lower-than-expected inflation for May.

The situation in the FX market in the region remains unclear in what direction it will take. The Polish zloty will of course be the main focus. Given the expected dovish tone of the governor, the market is likely to be open to price in more monetary easing, pushing the interest rate differential down. However, this is not the main driver at the moment and if anything, it is more global sentiment that is deciding the zloty. At the same time, it is hard to see what role the MinFin operation in the FX market may play in the strongest levels of the zloty since June 2021. However, the strong long market positioning and dovish NBP leads us to a rather bearish view on the zloty and we see a rather higher EUR/PLN after the end of the press conference today above 4.490.

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