

FX Daily: A higher bar for bearish dollar bets

Yesterday's US inflation failed to validate dovish bets on the Fed and triggered a bounce in the oversold dollar. We see more room for hawkish repricing in the coming weeks, and accordingly, upside risks for USD. Today, the US PPI and the Fed Beige Book are in focus. In the UK, services CPI came in hotter than expected, but tomorrow's jobs data will be key for GBP



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Sign up [here](#) for our webinar "FX Talking - How far can the dollar fall?", today at 1400 BST/1500 CEST/0900 ET.

➔ USD: Inflation reality can have lasting effect

The dollar had the best day in a month yesterday, hitting a three-week high after the [US CPI release](#). The Treasury-off, dollar-on is admittedly not the most intuitive reaction to a core CPI month-on-month print 0.1% below consensus and the headline rate in line with expectations at

0.3% MoM. That is, however, justified by how markets were (before CPI) sitting on a dovish stance that was backed more by speculation that US President Donald Trump's pressure would have ultimately permeated the FOMC, rather than data or Federal Reserve Chair Jerome Powell's communication. A materially cooler-than-expected inflation print was needed for those dovish bets to be validated. We expect, in line with economic consensus, that there is more to be seen in terms of tariff impact on inflation in the next three months. From here, markets should have a harder time justifying bets on a September cut unless jobs data capitulates.

From the FX angle, it is quite likely that a stretched dollar short positioning triggered a slightly outsized USD bounce. But yesterday's reality check on Fed cuts speculation could have a lasting effect by raising the bar for dovish repricing, and we therefore feel the risks remain skewed to a stronger dollar from here. After all, markets are still pricing in 14bp for the September Fed meeting.

Some extra clarity on the inflation story will come with PPI data today. Expect markets to move on any surprise, although consensus is already positioned for a relatively benign 0.2% MoM print on headline and core PPI. Investors may take some hints from the Fed's Beige Book released tonight, which offers valuable insights into regional inflation and activity trends. We'll also hear the last few comments from Fed officials before the blackout period starts on 19 July. Today, Lorie Logan, Thomas Barkin, Beth Hammack, Raphael Bostic, and John Williams are all due to speak. We doubt yesterday's numbers have been enough to trigger any dovish shift in their policy views.

Francesco Pesole

➔ EUR: French political noise returns

Some headlines about French politics might have gotten into the mix on a bad day for the euro yesterday, although no spillover into the OAT-Bund spread means the effect should have been marginal if anything.

The French Prime Minister announced that two national holidays would be scrapped to ease pressure on the deficit. That caused the National Rally's Marine Le Pen to threaten to topple the government unless the proposal is lifted. The French deficit story has been very much in the background as of late, but yesterday probably served as a reminder that it is a ticking bomb for EU sentiment. And we could start seeing some FX spillovers in the coming months.

For now, EURUSD remains an extension of broader dollar sentiment. We think 1.16 can be a good balance unless data adds much to the US macro story in the next days. Risks are, however, that the dollar gets a bit more support from hawkish repricing and EUR/USD starts looking at 1.15.

Francesco Pesole

➔ GBP: Services inflation sticky in June

This morning, the UK reported services inflation was unchanged at 4.7% in June, against expectations for a deceleration to 4.5%. Here's our UK economist James Smith's hot take:

"Services inflation held steady, and actually, looking at some of the core services measures (which exclude different volatile/less relevant categories), most of these picked up a bit. Services CPI will probably bounce around these levels for the rest of the year, before coming dramatically lower next spring. A fair part of what's driving services inflation right now is chunky price rises that came through in April, most of which are inherently backwards-looking or regulated. These will drop out

next year, which the Bank of England is well aware of. Still, this means the bar to cutting rates faster still feels fairly high – we expect cuts in August and November. But tomorrow's jobs numbers are key; if we see another bad payroll figure, that would put a lot of pressure on the Bank to shift in a more dovish direction.”

Sterling is trading modestly stronger after the release. The risks associated with tomorrow's jobs numbers are probably preventing any larger hawkish repricing in the Sonia curve and, by extension, keeping GBP gains contained. Markets continue to price in two rate cuts by year-end, but the recent tendency has been to explore more dovish pricing. A soft jobs print tomorrow should send EUR/GBP back above 0.870.

Francesco Pesole

CZK: Spike in rates opens room for more FX rally

We've been bullish on the Czech koruna for some time now, as we've noted in several discussions over the past few weeks. And while we saw a good rally in June, in July it seems that the CZK has exhausted itself vs the euro. This wasn't too much of a new story, however, and the market gradually wanted to return to its usual receiving CZK rates, undermining the FX position.

This time, the story seems different. Even though the market is only pricing in roughly half of the anticipated rate cut, we still see room for less than that. We probably won't see many triggers this week, but next week we could see the first Czech National Bank interviews ahead of the August meeting, which should bring some hawkish comments.

Overall, we believe the Czech story remains hawkish and there is more to see here. Short term, yesterday's spike in CZK rates should support FX today, and we think that opens up the possibility of going to 24.600 again despite a stronger US dollar, which should lead to overperformance within the CEE region.

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