

## FX Daily: A path to a weaker dollar exists

FX markets face a busy week. We have rate meetings in the eurozone, Canada, Poland and India, while this week's US employment data will determine how the Fed communicates with us next Wednesday. A path to a lower dollar does exist. Elsewhere, we'll watch to see whether a French downgrade hits the euro and look at election results in Mexico and South Africa



### 📉 USD: Downside risks to the dollar this week

Friday's release of a [0.2% month-on-month US core PCE deflator](#) was enough to soften but not really hurt the dollar. Perhaps it was the third decimal place (the number was 0.249%) that prevented a bigger sell-off – or more likely, it was the fact that we need to see a series of releases like this before the market can regain confidence that the Federal Reserve is set to embark on an easing cycle.

If recent weeks have been about US price data, this week is all about the second part of the Fed's dual mandate – maximum employment. Tomorrow sees the release of JOLTS job opening data. This goes to the heart of the Fed's focus of balance returning to the labour market. Lower job openings will reflect a better balance between demand and supply and will have implications for how the Fed thinks both about labour demand and wage price pressures. The main event this week will, however, be Friday's US job report for May. Our team is looking for a softer figure at +150k, which if seen should prove a modest negative for the dollar.

In addition to central bank policy meetings overseas this week, the market will be looking at the fall-out of election results in Mexico and South Africa. Uncertainty exists in both. In Mexico, the

question is whether the Morena party has done so well that it could command a super-majority and try to pursue market non-friendly policies of constitutional reform. In South Africa, the ruling ANC party has done so poorly that it must form a coalition to govern – but the question is whether it will be parties from the right or the left.

Back to today, the US calendar sees the release of the ISM Manufacturing index, expected at sub 50% again. Manufacturing PMIs have been a little better overseas recently, but another sub-50 reading in the US could see DXY press support at the 104.35/40 area. For reference, seasonal patterns over the last 10 years point to downside risks to the dollar in June.

*Chris Turner*

## ➔ EUR: ECB, election and downgrades

As James Smith discusses in his weekly [THINK Ahead](#) piece, the focus this week will be on how the European Central Bank characterises a likely 25bp rate cut this Thursday. A 'hawkish cut' is ING's call and one that could prove supportive to EUR/USD should the US data have softened and the external environment continues in a glass-half-full mode – as it has done overnight in Asia.

Also in focus this week will be the fall-out from S&P's downgrade of French sovereign debt on Friday evening, and also this week's European parliamentary elections, where voting starts on Thursday. On the former, expect FX traders to be monitoring the French-German 10-year government bond spread today. This has been pretty steady inside of 50bp recently, but some modest widening today could generate some independent euro weakness on the crosses, e.g., in EUR/CHF.

Our bias is that EUR/USD could drift to the upper end of its 1.0800-1.0900 range this week and softer NFP data – should it materialise on Friday – could be the catalyst for a decent move through 1.09.

*Chris Turner*

## ➔ GBP: BoE goes quiet ahead of elections

UK elections on 4 July mean that the Bank of England has cancelled all speeches, and we will not be hearing from it until the 20 June MPC meeting. The UK data calendar is also light this week, although of interest will be Thursday's release of the BoE's Decision Maker Panel on inflation expectations. One-year inflation expectations are forecast to have fallen further and could remind markets that they are being far too conservative in pricing barely more than one BoE rate cut this year. We look for three.

We continue to see good support for EUR/GBP at 0.8500 and Thursday's event risk (including the ECB meeting) could be the catalyst for a move higher.

*Chris Turner*

## ➔ CEE: The story returns to the region

After a quiet two weeks in the CEE region, the coming days will be very busy. Today, we start with PMIs in the region, which should show a slight improvement in sentiment. In Turkey, May inflation will be released. We expect a cyclical peak at 74.8% from 69.8% year-on-year a month ago. In

Poland, we will see the final GDP data for the first quarter, and in the Czech Republic, the state budget result for May.

On Tuesday we will also see final GDP data in Hungary, and the Czech Republic will release first quarter wage data, which is key for the central bank. The National Bank of Poland will meet on Wednesday. We expect rates to be unchanged in line with expectations, and the focus will again be on the press conference on Thursday. Thursday will also see the release of monthly data in the Czech Republic including industrial production. On Friday, we will see the same data in Hungary.

In the FX market last week, CEE currencies (as well as the whole EM space) sold off, which now seems to be over. HUF had the most attention, losing almost 1.5% last week, the most among its peers. HUF seems to have closed most of the gap with rates, but we remain rather negative here and see it heading above 390 EUR/HUF. PLN has already erased some losses on Friday and the NBP meeting this week could be a reminder for the market of strong fundamentals pushing EUR/PLN below 4.260 again. EUR/CZK was the only pair in the region to hold on to its original levels from the beginning of last week. We see levels closer to 24.80, where the interest rate differential is pointing after the upward move in core rates.

*Frantisek Taborsky*

## Author

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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