FX Daily: Awaiting the Trump-Xi call

In a social media post this morning, Trump said Xi Jinping is difficult to make a deal with, as markets await details on the scheduled call between the two leaders this week. There is some positive USD potential here, but rallies may fade quickly. Elsewhere, the Bank of Canada is expected to hold, but we think it's a closer call than markets imply

US President Donald Trump and Chinese President Xi Jinping

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USD: Dollar rebounds, trade and ISM in focus

The dollar showed resilience despite the late-session bounce in Treasury yields, supported by strong April JOLTS job openings. That said, the JOLTS data adds little to the overall jobs picture: the labour market remains tight, while declining quits suggest wage growth is easing. The dollar's rebound appears more a reflection of markets struggling to justify an already elevated risk premium without fresh negative developments on trade or Treasury fronts.

Markets may also be adopting a slightly more optimistic stance on US-China trade tensions ahead of the scheduled Trump-Xi call this week. Recently, such direct talks have eased trade pressures, and in our view, there is potential for a temporary uptick in the dollar after the event. Still, this may not trigger a sustained rally. Trump's 50% tariffs on steel and aluminium are now official, and a conciliatory tone between Trump and Xi Jinping may not result in any real breakthrough in negotiations. Trump said this morning in a social media post that he "likes" President Xi, but he is also "extremely hard to make a deal with". At the time of writing, there are no indications that the call between the two leaders has already taken place.

Attention today centres on the US ISM services index, with consensus expecting a modest rise to 52.0 from April's 51.6, though recent weak manufacturing data may have tempered expectations. The ADP payrolls report is also in focus and is forecast to accelerate from 62k to 114k, signalling a solid jobs report on Friday. The Fed's Beige Book release this evening may also influence sentiment.

We would be cautious about jumping back into USD shorts before the Trump-Xi call has happened. After that, we expect the dollar to come under renewed pressure.

Francesco Pesole

EUR: Staying below 1.140 for now

As we had anticipated, EUR/USD was looking a bit too expensive close to 1.145, and the bounce below 1.140 is probably due to some short-squeezing. Some potential positive news on US-China trade tensions this week argues against a quick return to early Tuesday levels (1.1420+). That is, barring some materially soft US data today.

Yesterday's eurozone inflation figures incidentally increased the chance of a more dovish message by the ECB. Aside from the print below the 2.0% target in headline inflation, core decelerated quite abruptly, from 2.7% to 2.3%. In our ECB Cheat Sheet, we discuss how the overall message should be dovish, but that more references to the euro's global potential can offset the negatives for EUR/USD.

Today is rather quiet in the eurozone data-wise, with April industrial production and final PMIs for May being released. US and EU trade negotiators are, however, meeting in Paris.

Our view on EUR/USD is unchanged: we think the pair can settle back close to 1.13 over the coming weeks, and that short-term rallies may still lose steam as they approach 1.150.

Francesco Pesole

CAD: Don't rule out a BoC cut today

Today's Bank of Canada meeting (here is our full preview) has been a very hard one to call. Consensus was slightly favouring a 25bp cut before aligning with market pricing for a hold over the past couple of days. The CAD OIS curve currently embeds around 25% probability of a cut today, which to us looks too conservative considering the ever-rising downside risks to the Canadian economy, especially after Trump hiked metal tariffs, which damage Canada more than any other country.

We think this meeting is a coin toss. We are very marginally favouring a cut purely based on the economic justification, but admit that the BoC might send an excessively dovish signal by cutting when markets are pricing in only 5bp.

Anyway, a hold may well be accompanied by dovish language, and the market's pricing for the July meeting (-16bp) and year-end (-38bp) both look too conservative to us. The Canadian dollar is one of our least favourite currencies at the moment, also considering the asymmetrical correlation with US economic woes compared to other G10 currencies.

Francesco Pesole

CEE: Focus shifts to the CNB in a busy week for the region

It's a busy week in Central and Eastern Europe, and today the focus shifts to the Czech Republic for the first time in a while. This morning we will see May inflation and first-quarter wages. The market expects a small pick-up of 1.8% to 2.0% YoY. We expect 2.1%. The Czech National Bank (CNB) projected 2.3% in the May forecast, but the April number already surprised down 0.2pp from the central bank's forecast. The question is whether the depreciation will widen or remain unchanged today.

Although the headline numbers look good for the CNB, the detail is more complicated. Despite the low headline in April, core inflation was 2.6% and we don't expect any change here in May. At the same time, utility prices and imputed rents, a sensitivity for CNB, have accelerated. Wages are slowing along with inflation, and our economists expect a low 2.8% YoY in real terms, while the market expects 3.7% and CNB 4.0%.

Overall, the story based on these numbers seems dovish, which may be today's market take, but the details and stronger economic data point to a more hawkish direction. We won't see an inflation breakdown today, just a flash estimate, so we'll have to wait a bit longer. We expect a pause in the CNB cycle at the June meeting and expect another cut in August, but that's still a long way off. However, given that the market is pricing in at least two rate cuts and there is some hawkish risk, the CZK is our favourite currency in the CEE region at the moment.

Elsewhere, the National Bank of Poland will discuss monetary policy today. Rates are likely to remain unchanged at 5.25% and the council will wait for the new forecast in July, when we think we will see another 25bp cut. More important will be the statement after the decision later today and tomorrow's press conference. The statement should reflect a much lower inflation profile given the downward surprise in April and the new household gas price tariffs announced. At the same time, it may also show some commentary on fiscal policy after the presidential election, which may come across as a hawkish argument in the current environment. However, the market is already pricing in rate cuts to 3.50%, so the bias for potential surprises is more on the hawkish side, which could provide some temporary support for PLN.

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