FX Daily: EUR/USD back at the 1.13 anchor

The dollar has had a lift from a rebound in consumer confidence and Trump striking a more conciliatory tone towards the EU. Now that EUR/USD has returned to the 1.130 anchor, the dollar may require more positive catalysts to continue its recovery. Today, focus will be on the FOMC minutes, while in New Zealand the RBNZ delivered a hawkish cut

USD: Data and Trump help the dollar

Yesterday, we noted that the dollar needed some positive data surprises to regain firmer footing, and May's consumer confidence figures delivered. The index rebounded sharply to 98.0 from April's 86, well above the 87 consensus, offering a tentative signal that the US-China deal – and, even more so, the equity rebound – have helped reassure US consumers. The Dallas Fed manufacturing index also surprised to the upside, adding to the more favourable outlook for the dollar.

A more conciliatory tone from President Trump towards the EU, coupled with reports of pressure from some EU leaders for a quick trade deal, also contributed to the squeeze in USD shorts. Meanwhile, Japanese officials said they aim to reach a deal with the US before the G7 meeting between 15-17 June. While an EU-US deal is unlikely to include currency clauses (and would probably be USD positive), there is growing speculation that Japan may have to agree to limit JPY depreciation versus the dollar. If so, this could trigger a sharply negative USD reaction as markets price in the risk of similar FX clauses in other Asian trade deals.

The highlight of today's US calendar is the FOMC minutes from the 7 May meeting. Markets will be looking for clues on where the Fed stands regarding the transitory nature of tariff-driven inflation. With two rate cuts priced in by year-end, the market consensus seems in line with Fed Chair Jay Powell's cautious tone, though risks remain tilted slightly to the dovish side. It's worth noting that the FOMC met before the US-China deal, so members were working off an average US tariff rate of 23%, not the current 13% (our estimates).

In general, markets tend to lean bearish toward the dollar. More positive data surprises are needed to rebuild confidence in US growth, and deficit worries aren't disappearing anytime soon. When adding the themes of de-dollarisation and Trump's plans for a weaker dollar in the longer run, we still think the greenback rallies can fade from here.

We have been flagging downside risks for the dollar in the near term. The upside surprise in consumer confidence reduces those risks, but we remain cautious about chasing the DXY above 100.

Francesco Pesole

EUR: 1.13 remains the anchor

The euro has held up better than most G10 currencies, helped by positive headlines about EU-US trade negotiations. On the data front, France posted a negative month-on-month CPI print for May, which adds to the narrative of an initial deflationary impact from tariffs on the EU. If Friday's data from other member states confirms this trend, EUR swaps could start to price in a greater chance of ECB rates dipping below 1.75%. Today, the ECB publishes its CPI expectation surveys for April.

Interestingly, the Swedish krona has started the week on the softer side against the euro. Normally, SEK acts as a higher-beta version of the euro and would have outperformed on positive EU news in other conditions. But the krona appears to have decoupled from the usual global risk sentiment drivers, moving instead in near-perfect asymmetry with the dollar. Last week, US Treasury concerns coincided with a 1% drop in EUR/SEK. One reason may be that SEK has been supported by equity repatriation from the US, with negative US news accelerating these flows.

EUR/USD has found support around 1.130 on several occasions over the past six weeks. If US data and Trump continue to deliver positive surprises this week, a decisive break lower is possible. Still, we doubt markets are ready to price out the USD risk premium, especially with deficit concerns recently coming to the fore. For now, we see 1.130 as a likely anchor, with upside risks for EUR/USD still dominant in the weeks ahead.

Francesco Pesole

NZD: Hawkish RBNZ cut lifts Kiwi dollar prospects

The Reserve Bank of New Zealand cut rates by 25bp to 3.25% as widely expected this morning, although the overall message was more hawkish than expected. First, the vote split, 5-1 in favour of a cut, while baseline market expectations were likely a unanimous decision. Second, rate projections showed an average 2.9% level by year-end, which is below the 3.1% from February's update but not fully signalling rates will be trimmed to 2.75%. Finally, Chief Economist Paul Conway said rates are now close to neutral, and Governor Christian Hawkesby also sounded quite cautious on future rate cuts saying "we have done a lot of work".

The key takeaway is that the RBNZ is no longer committing to a set easing path, with any further moves now likely to be driven by incoming data. While another 25bp cut to 3.0% this summer remains likely, we expect the RBNZ to move in August rather than July. We had already questioned whether rates would go below 3.0% this year, given the lack of inflation progress, and today's hawkish tone reinforces our view that only one more cut is likely in 2025.

The RBNZ's move away from the dovish stance seen since July 2024 is a clear positive for the NZD. We have been constructive on NZD/USD and continue to expect the pair to move back above 0.600 in the coming weeks.

Francesco Pesole

CEE: Despite a noisy global story, the region remains steadily strong

Yesterday's meeting of the National Bank of Hungary did not bring much news, with rates unchanged at 6.50%. The central bank confirmed a hawkish tone with a focus on inflation expectations and service prices. What is new is commentary on bank liquidity in Hungary, where a large number of lending facilities from previous years are expiring this year, tightening market conditions.

From a market perspective, the hawkish NBH is positive for HUF as we discussed yesterday. Although we maintain a more bearish view on FX in the medium term, we may see further gains in the short term. The global story and higher EUR/USD generally support a stronger HUF, and the hawkish NBH pushes market rates higher in an environment where core rates rally. As a result, at the end of yesterday's trading session, the 2y spread moved close to its widest since mid-April. EUR/HUF should thus have an easy path to 402.

Today in the region, the calendar is empty, but similarly for HUF, global conditions for CEE currencies remain positive and we may see some slow gains in PLN and CZK as well.

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