

## FX Daily: Central bank meetings in Europe dominate

The FX focus today switches to central bank meetings in Europe. We think that the risks of a dovish Bank of England are underpriced, and the risks of a dovish Swiss National Bank and Norges Bank are overpriced. This could play out in their respective currencies today. Elsewhere, Asia FX remains in the doldrums as risks of a weaker Chinese renminbi remain



### ➔ USD: Current account data could be interesting

It has been a relatively quiet week for the dollar, where [Tuesday's slightly softer-than-expected US retail sales](#) release has not had a marked impact on rates or the dollar. Barring some major verbal intervention from the Federal Reserve, it looks as though this range-bound trading can extend into 28 June, when we see the core PCE price data for May. This should prove a mild dollar negative by supporting market expectations of a September Fed rate cut. This is only priced at a 55% probability currently.

We doubt today's US data calendar has much bearing on dollar pricing, but we will take a look at the first quarter of 2024's current account data. We wrote on [this subject in early May](#). We

concluded that the vast majority of money going into the US over recent quarters was into long-term debt securities. This serves as a reminder that whoever is in the White House come January 2025, there is no room for complacency on US debt and the kindness of strangers.

Also catching our attention today have been events in China. USD/CNH jumped in Asia when the People's Bank of China fixed USD/CNY at the highest levels of the year. Expect a few more headlines when it gets fixed above 7.1200. This comes at a time when it looks like the PBoC is reforming its money market operations and looks set to more exclusively target the 7-day reverse repo rate as its policy rate and narrow the bands around it. It looks like investors may be adding two and two and coming up with seven on the view that the PBoC will use the opportunity of money market reform to push through with a weaker renminbi. We are not looking for any substantial moves here, but we acknowledge that it will be an issue this summer and stand to keep Asian FX in general on the back foot.

Expect DXY to stay slightly bid in a 105.00 to 105.50 range today.

*Chris Turner*

## 📉 EUR: Still vulnerable

EUR/USD is consolidating above 1.0700 even though reasons to be cheerful are scarce. The French:German 10-year sovereign spread remains close to 80bp and despite some investors expressing that they see value in French debt here, we doubt few will want to buy ahead of the French elections later this month. Please see [here](#) for a review of the European Commission's decision announced yesterday to launch an excessive deficit procedure against France and four other countries. The eurozone calendar is light but we will get to see the European Commission's latest gauge for consumer confidence. This should rise modestly as consumers finally enjoy the benefits of some higher real wages. We favour EUR/USD staying slightly offered in a 1.0700-1.0760 range today.

More interest will be had in the Swiss National Bank meeting announced at 9:30am CET. Economists are roughly split between unchanged rates and a 25bp cut. Because of the recent drop in EUR/CHF, markets are now slightly more in favour of a rate cut, attaching 70% to the prospect of one today. The mood from local corporates seems to be that the SNB will leave rates unchanged – even though EUR/CHF is below 0.95 – on the view that it will not want to give the signal with back-to-back rate cuts that the inflation battle has been won. Unchanged rates from the SNB today could send EUR/CHF down to the 0.9400/9420 area.

*Chris Turner*

## 📉 GBP: BoE presents downside risks to the pound today

[Here](#), we outline our thoughts for today's Bank of England policy meeting. In short, we think it will lay the groundwork for an August rate cut. The market currently only attaches a 31% probability to that and we therefore think sterling gets hit today. GBP/USD will probably bear the brunt of that adjustment and looks set to press 1.2650 and potentially 1.2580. EUR/GBP could trade to 0.8500.

Recall that because of the 4 July UK election, there is no press conference today. Thus all the material – statement and minutes – will be released at 1:00pm CET.

*Chris Turner*

## 📈 NOK: Risks of hawkish revisions by Norges Bank

Norway's central bank will almost certainly keep rates on hold today, and focus will be on forward-looking language and new economic projections, including the policy rate path. Underlying inflation in Norway slowed less than expected to 4.1% in May, the jobs market has remained very tight and Norges Bank had already flagged concerns for higher-than-expected wage growth at the May meeting. At the same time, NOK has appreciated by around 2.5% on a trade-weighted basis since the May meeting, lifting some pressure to keep policy tight for FX reasons.

There is a good chance that Norges Bank maintains its unchanged forward guidance, still signaling the possibility of a rate cut already in the third quarter. However, given domestic developments and the more hawkish Fed dot plots, the risks are skewed to a revision of the rate projections to the hawkish side, thereby signalling that rates will remain unchanged through the third quarter and a first move only in the fourth.

NOK remains exposed to the turmoil in EU markets due to recent political developments, and we see the likes of AUD and NZD as better positioned to benefit from further drops in USD rates in the near term. Still, a hawkish Norges Bank and NOK's ample room to recover thanks to strong fundamentals means that the outlook remains positive for the krone once the EU political concerns have settled. A move to 11.00 in EUR/NOK before the US election event risk remains a tangible possibility in our view.

*Francesco Pesole*

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