

## FX Daily: Czech koruna awaits new central bank board members

FX markets are in a consolidatory mood ahead of tomorrow's ECB meeting. The continued rise in energy prices is leaving the currencies of the big energy importers, Japan and Turkey, under pressure. For today, the European highlight will be the size of the rate hike in Poland and the choice of candidates for the new term of the Czech National Bank board



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### ➔ USD: Dollar treads water

Trade-weighted measures of the dollar are steady, off about 2% from the highs of the year seen in May. The wobble in equity markets last month had thrown into question whether the Fed would be taking rates as high as 3.25% after all, but recent equity stability and encouraging US data (including strong April consumer credit released last night) support the view that Fed tightening remains at full throttle. With energy prices continuing to push higher, those currencies most under pressure are now the likes of the Japanese yen (JPY) and Turkish lira (TRY) - both large energy importers and both suffering even more negative real interest rates, as neither central bank is prepared to tighten policy.

This has been quite a quarter for USD/JPY and even though we think it is starting to look expensive on a medium-term fundamental basis, there seems no reason to fight the trend. The next stop

here may well be the highs seen just above 135 all the way back in 2002.

Given that Fed policy has been such a crucial driver of the dollar's turnaround over the last 12 months, we expect the dollar to remain broadly supported into next week's FOMC meeting. Here, a new set of Dot Plots will be released, which can support expectations of 3%+ policy rates into 2023. For today, there is no US data of note and no sign that high oil prices (a dollar positive) are set to turn. DXY to trade well within a 102.00-103.00 range.

## ➔ EUR: Euro stays supported into tomorrow's ECB meeting

EUR/USD has held up quite well in the face of this week's dollar strength. Supporting the euro is the prospect of a hawkish European Central Bank meeting tomorrow. While it looks far too early to expect a rate hike, which [as Carsten Brzeski writes](#) would damage the bank's credibility, the prospect of a hawkish meeting is lending the euro some support. At least the ECB looks to have taken the decision to get real interest rates higher - unlike its counterparts in Japan. On that subject, money markets only seem to be pricing the 25bp hike scenario for the ECB on 21 July. That could easily edge some way towards the 50bp scenario over coming weeks and could nudge EUR/USD back above 1.07 later this week. For the time being, however, we're happy with a 1.05 end-June forecast for EUR/USD on the back of persistent Fed hawkishness.

Elsewhere in Europe today, the focus will be on Poland. Here, [our team looks for an above-consensus 100bp National Bank of Poland \(NBP\) rate hike](#). This will take the policy rate to 6.25%. Continued hawkishness from the NBP (we see rates close to 8.5% by year-end) and the prospect of Poland exchanging EU funds on the open FX market should keep the zloty supported. 4.50 looks the direction of travel for EUR/PLN.

## ➔ GBP: Pound ignores Tories internecine conflict

The pound seems to be shrugging off speculation over Prime Minister Boris Johnson's future, where EUR/GBP is now around 1% off its recent highs. Sterling will face more volatility around two UK by-elections to be held on 23 June - both of which the Conservatives stand a real risk of losing. Yet the Conservatives still retain a substantial majority in the Commons and if anything, pressure at the polls could translate into earlier tax cuts to appeal to the base.

We continue to favour EUR/GBP trading near 0.8500 over coming months and edging to 0.86 by year-end should the Bank of England not deliver on the astonishing six rate hikes now pencilled in by the markets. Were talk of tax cuts to gain traction, sterling could actually hold onto recent gains.

## ⬇️ CZK: President appoints new CNB board members confirming dovish shift

The President will announce the appointment of the new members of the Czech National Bank (CNB) Board at 2 pm local time today. Official reports are not very specific, but local journalists mention that current members Tomas Nidetzky and Vojtech Benda were not invited to today's appointment. At the same time, journalists have come up with a trio of names to complete the current board: Jan Frait (CNB Head of Financial Stability Department), Eva Zamrazilova (Head of Fiscal Council), and Karina Kubelkova (Chamber of Commerce economist).

The first two are former CNB board members (2000-2006 and 2008-2014) and their appointment

would be their second and last six-year term. This gives us a picture of their vision for monetary policy. Jan Frait was one of the doves during his first term on the board, but as head of financial stability, he was instead opposed to zero interest rates and supported raising rates as soon as possible. Eva Zamrazilova was one of the three board members who opposed the FX floor in 2013 and has been cautiously critical of recent interest rate hikes in recent comments. Karina Kubelkova's views are not widely known, but from what we do know, let us assume she prefers a more cautious approach. All three names are familiar with how the CNB operates, but we expect a rather dovish approach.

The key point is that such a board composition does not imply a clear camp of opinion close to the new CNB governor and, as we mentioned, it may be difficult to find consensus. [Our view does not change much for now](#). We expect the CNB to deliver the last rate hike in June and the new board to be more willing to cut rates sooner, which is already implied by the CNB's forecast. For the koruna, this means the loss of major support in the form of an all-time high interest rate differential. The latest banking liquidity data suggests that the CNB may have intervened in favour of the koruna again last week. Regardless of the new board's view, we believe that the market will still eventually force the central bank to intervene significantly more in the second half of the year.

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