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FX

FX Daily: Diminishing marginal impact from trade threats

Having gapped 0.3% lower in Asia on news of a potential 30% US tariff on EU imports, EUR/USD is now barely 20 pips down on Friday's close. These kinds of threats seem typical as President Trump tries to get new deals over the line. We expect a better deal for Europe than this, but it could be noisy ahead of 1 August. Elsewhere, look out for new sanctions on Russia



EUR/USD is shrugging off threats of 30% tariffs

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USD: Russia news could be dollar driver today

News from the weekend that the US could impose 30% import tariffs on the EU and Mexico hasn't moved markets too much. Equity futures in the US and Germany have been marked down 0.4% and 0.6% respectively, while the dollar is marginally stronger. The moves have not been larger since investors see these threats as a Washington negotiating tactic to push the

other side over the line into a deal. [Here's the view](#) from our trade team on the weekend events. Our baseline assumes that better deals than this get agreed by the 1 August deadline and that we are not going to see a repeat of the early April market shock in response to Liberation Day tariffs.

More interesting today from the White House could be news of fresh sanctions on Russia. Clearly, US President Donald Trump is losing patience with Russian President Vladimir Putin, and the decision to send Patriot missile defence systems to Ukraine reflects a turnaround in White House thinking. In terms of sanctions, look out for the announcement of any secondary sanctions on those countries buying Russian oil. 500% tariff rates on countries helping Russia have been muted. India would look vulnerable here. But also, energy prices could get a bump if sanctions finally bite into Russian oil and gas supplies. A jump in energy is good news for the energy-independent US (and the dollar) and negative for the big energy importers in Europe and Asia.

Away from trade and geopolitics, it is an important week for macro too. Tomorrow sees the release of the June US CPI figure. This is expected to start ticking back up to 0.3% month-on-month increases as the effects of tariffs finally start to show up, although the effects might be more sizeable in the July-September data than the June data. Still, the data has the potential to start removing the 17bp of easing priced in for the 17 September FOMC meeting and prove slightly positive for the dollar.

DXY could recover to fill a gap to 98.35, should today's sanction news on Russia move energy prices.

Chris Turner

↓ **EUR: Corrective activity continues**

Those waiting for better levels to buy EUR/USD could be rewarded for their patience. US-EU trade negotiations look set to get noisier over the coming weeks, and baseline expectations that the EU secures a 10% tariff rate on most goods could be challenged. At the same time, we are on the lookout for higher energy prices and also a slight tick higher in US rates if US inflation starts to nudge higher. A close under, say, 1.1650 in EUR/USD today could clear a path for a correction to the 1.1450/1500 area, which is our slight preference for this quarter.

Also today, look out for fresh news of demand for EU issuance. Last week's 7 and 20-year EU issues had 14x and 20x subscription levels for EUR9bn of issuance. And today sees the launch of another EUR5bn of 2028, 2034 and 2054 bonds. Tomorrow is the settlement day for last week's EU issues, meaning that EUR/USD could see some demand even if US CPI came in firm.

The data and European Central Bank speaker calendar are pretty quiet in the eurozone this week. But our house view of a 25bp ECB rate cut in September is only 40% priced by the

market – a factor which could weigh on the euro over coming months.

Chris Turner

↓ **GBP: Underperformance starting to become clearer**

Investors seem to be taking a dimmer view of sterling, presumably on the back of the fiscal straitjacket currently trapping UK Chancellor Rachel Reeves. This week, however, the story could be more macro and particularly focus on the labour market. This morning, we have already seen quite a poor labour market survey from KPMG and Thursday this week sees labour market data for June. In May, payrolled employees fell by quite a large 109k. Most expect this number to be revised up.

If not, perhaps the UK labour market is in a weaker position after all, and the Bank of England will have to cut rates more quickly. Tomorrow, we will also see June CPI data, where services inflation is set to edge lower again – also supportive for slightly quicker BoE rate cuts. Currently, the market prices two 25bp rate cuts this year.

EUR/GBP has held support at 0.8600. This week's data could see EUR/GBP break through 0.8670 resistance in a move to challenge April's spike high at 0.8735.

Chris Turner

↓ **CEE: Risk-off mood reveals overvaluation in the region**

As we move into the second half of the month, the CEE calendar is usually more muted, and this week should be quiet. The only data we'll see today is the region's current account numbers. On the political side, the Romanian government faces a no-confidence vote today, but that should be a non-event given the majority in parliament.

Tomorrow in Poland, the final inflation numbers will be released, which should confirm a 4.1% rate in June and provide us with more insight into the details. On Wednesday, we will also see core inflation in Poland, which is likely to have risen slightly from 3.3% to 3.4%. Still, we expect inflation to fall well below 3% in July, which should allow for another National Bank of Poland rate cut in September (potentially 50bp).

Wednesday will also see the release of wages in Hungary, which surprised to the upside last time and are on the central bank's radar. The Czech Republic's PPI for June will be released on the same day.

Friday's risk-off mood hit CEE currencies visibly, and we saw some movement in the region after a few quiet days. The Czech koruna outperformed the region as we expected, supported by a hawkish Czech National Bank story. Still, EUR/CZK is at its highest since early July, like the rest of the CEE region. More interesting are the Polish zloty and Hungarian forint, which we

think have been overvalued for some time, and the risk-off mood may bring some correction.

EUR/PLN has been discussed here several times since the last NBP meeting, and in the last two trading sessions, we finally saw some closing of the gap between rates and FX. We still believe there is more room to go up, but already levels above 4.270 would look more fair.

Still, we see 4.280-290 as a target unless the story on the rates side changes. In the case of EUR/HUF, we said we saw the 400 level as neutral for now, and nothing has changed on that front; a move up from 399 looks fair. At the same time, the risk is some long HUF positioning in the market, which could accelerate a sell-off in case of more pressure here.

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