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FX

FX Daily: Dollar consolidates recent gains

It has been a mildly better 24 hours for risk assets, with tech stocks showing a little more stability and the Asian currency complex lifted by stronger trade data in China. Expect more consolidation today given very little data and the blackout period ahead of the ECB and Fed meetings. Expect the dollar to remain supported on dips



The dollar should remain supported on dips

➔ USD: More consolidation

The good news for investors is that Friday's sell-off in tech stocks saw little follow-through selling yesterday. And overnight, some of those stocks which led the sell-off, such as the Korean chipmakers, have bounced back strongly. It does seem the [creation of leveraged ETFs](#) on these Korean chipmakers has added to volatility, including these leveraged products falling even when the underlying stocks they are tracking are rising.

The volatility of tech stocks, however, looks to be a distraction to the dominant cyclical story in FX markets, which is the potential for the Fed to tighten policy. Last week was all about the strength of the US labour market and this week the market will be focused on US price data. This starts with tomorrow's May CPI and is followed by PPI on Thursday. The market looks positioned for some firm data here and a far less dovish FOMC meeting in a week's time.

Today's focus is on the NFIB small business optimism data, the weekly ADP jobs data and the April trade balance. On the subject of trade, China released another healthy [set of trade data overnight](#), which is lending some support to the renminbi and the Asian currency complex in general. On a related subject, the US Treasury market should take note of likely FX intervention across a large swathe of Asia and what it means for US Treasury sales. Fed custody holdings data show another \$71bn decline in foreign official holdings of Treasuries since the start of May – which will add further pressure to the market.

DXY is consolidating after a strong rally on Friday, and we would expect it to find support around the 99.80 area before another look at the upside later this week.

Chris Turner

➔ **EUR: Holding pattern ahead of US CPI and ECB**

The slightly better risk environment is taking some steam out of the dollar's rally and is helping EUR/USD to correct some of Friday's heavy losses. 1.1500 now looks like important support, and the top of a short-term trading range may well prove the 1.1555/60 area if the bullish dollar theme is to remain dominant.

We have just seen some [German industrial production for April](#), which has proved marginally better than expected. However, our eurozone macro team warn that activity could take a turn for the worse over the coming months once this precautionary inventory building has run its course.

[Thursday's ECB meeting](#) could present some upside risks for EUR/USD – but we will need to get through US CPI data first.

Chris Turner

⬇️ **CHF: Higher rate environment is CHF bearish**

Despite uncertainty in the Gulf, EUR/CHF has crept back up to the 0.92 area. Driving this move, we believe, is the sell-off in the interest rate market, where Swiss market interest rates lag any global trends. Our team sees the risk of a hawkish ECB meeting this Thursday, which means that the pricing of three rate hikes over the next 10-12 months can stick.

In the background, the Swiss National Bank continues its position of an increased willingness to intervene in FX markets. First quarter FX intervention data will be released on 30 June and will likely show a decent pick-up after a very quiet couple of years for the SNB in this space.

The above should keep EUR/CHF supported near 0.92 and the surprise package would be a move to 0.93 on a hawkish ECB story.

Chris Turner

📈 HUF: Inflation confirms that NBH rate cuts are a done deal

Inflation in Hungary in May came in at 1.8% YoY, below market expectations (2.2%) and below the 3% forecast in the National Bank of Hungary's March inflation report. This confirms that Hungary remains in its idiosyncratic story since the April elections and the combination of sharp FX appreciation and price shields is keeping inflation low despite the pro-inflationary global story. The start of an easing cycle in June seems like a done deal, and we expect 25bp to 6.00%. For the rest of the year, our economists see 75bp of easing overall, but today's soft CPI data can probably see the market pricing more than that.

Yesterday's headlines from Governor Zoltan Kurali suggest that easing is coming, but the central bank does not want to rush. This means we cannot expect any bigger steps than 25bp. The June NBH meeting is only two weeks away and the global situation could still change in the meantime. However, the risk is rather on the positive side for Hungary given the escalation of the Middle East conflict over the weekend and the stronger US dollar at the moment.

Meanwhile, EUR/HUF is showing admirable stability at 355 despite the deterioration of global sentiment. As long as EUR/HUF remains stable or grinds down, we believe that conviction regarding NBH rate cuts is growing. At the same time, we maintain 350 EUR/HUF as the target in our mid-year forecast.

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