

## FX Daily: Dollar fails to stay supported on geopolitical risk

The dollar has lost some momentum as oil prices corrected slightly lower, and markets still struggle to gauge the probability of the US joining the Middle East conflict. EUR/USD may stabilise now that it's back at 1.150. Elsewhere, yesterday's surprise Norges Bank cut means two more reductions in 2025 are possible



White House Press Secretary Karoline Leavitt hosts the daily press briefing in Washington DC. Trump's decision on Iran strikes is set to be made within two weeks

### ➔ USD: Support from geopolitical risk faltering

The White House said yesterday it will decide whether to order direct strikes on Iran within two weeks. This slightly trims the perceived chances of both a rapid de-escalation and a rapid escalation in the Middle East conflict, leaving Brent prices supported but perhaps without enough thrust to test 80\$/bbl for now. It's also been reported that Iran is attempting to fill up oil tanks quickly to export as much crude as possible, given the incumbent risks of logistical disruptions.

The FX market has taken the somewhat lower probability of the US intervening in Iran already this weekend as an opportunity to re-enter USD short positions, especially against European currencies. This confirms that a constant flow of oil-positive, risk-negative geopolitical news is needed to keep the dollar supported in an environment where markets retain a strong bias towards strategic USD shorts.

In macro news, today we'll see the Philadelphia Fed survey and Conference Board Leading Index (from June and May, respectively), which are both expected to have improved modestly. The FOMC communication blackout period ended last night, but there are no speakers scheduled until Monday.

Oil prices and the Middle East conflict remain the number one driver for FX markets. At this level, we think DXY may find some stabilisation barring major developments.

*Francesco Pesole*

## ➔ EUR: Back to 1.15

EUR/USD is back above 1.150 as markets priced out a certain degree of geopolitical risk off the pair. The situation in the Middle East remains too volatile to make a strong directional call on the pair, but the overarching risk of the US joining the conflict could keep it from aggressively retesting 1.160 in the next few days.

Eurozone developments remain very marginal for EUR/USD at this stage, with the macro calendar incidentally offering very little input. The EUR/USD two-year swap rate spread has incidentally been quite stable around 165-170bp since the European Central Bank meeting.

Elsewhere in Europe, markets were taken completely by surprise by Norges Bank's 25bp rate cut yesterday. We [argued last week](#) that the conditions for a cut were ideal, and that holding again was a risky move. However, we had doubts that the central bank would completely wrongfoot market expectations and consensus. We now expect two more cuts by Norges Bank, which does not necessarily prevent further EUR/NOK gradual depreciation, [as discussed here](#).

*Francesco Pesole*

## ➔ GBP: Vote split endorses August BoE cut

The pound was only lightly touched by a consensus Bank of England hold yesterday. The lack of new guidance has been the norm in the latest BoE meetings, and the vote split tends to be one of the very few metrics of hawkish-dovish tendencies. Yesterday's 6-3 vote split for a cut can be interpreted marginally on the dovish side and is allowing markets to reinforce their conviction call on an August cut.

We only expect [two cuts this year](#) two cuts this year, but markets may be tempted on the dovish side by soft UK data, and we remain generally bullish in EUR/GBP in our multi-month view.

*Francesco Pesole*

## ⬆️ CEE: Reducing risk before the weekend

The calendar in the CEE region doesn't offer too much today, but we still have several stories to follow in the background. On a global level, the situation in the Middle East continues to develop and could signal a busy weekend ahead. The market is likely to reduce risk today before the close, which we can see across the region. The US and Polish markets were also closed yesterday, which we should see in today's opening.

CEE rates were paid yesterday, and the PLN market should follow suit, supporting our view of a

stronger zloty. Of course, the global story and geopolitics will now play a major role – but as we discussed yesterday, we believe the potential sell-off in CEE FX is a fade given that the likely outcome is higher inflation stemming from rising energy prices and a more hawkish stance from regional central banks. We favour selling spikes in EUR-crosses in the CEE region over the coming days.

In Romania, we continue to follow the negotiations on the new government and the fiscal package. The government is expected to present the package at the Economic and Financial Affairs Council (ECOFIN) meeting today, and may try to convince its European partners of a credible commitment to consolidate public finances. It is still unclear whether this package will also be presented publicly today or at a later date, but the media is reporting an increasing number of potential proposals, including increases in the main tax rates.

In our view, this has narrowed the list of possible scenarios to 1) a small package with the possibility of further negotiations, or 2) a bigger package and a positive surprise. Negative scenarios involving a collapse in negotiations or loss of EU funds are likely off the table for now, making us more bullish on Romanian leu assets. However, media reports suggest the first scenario is more probable – enough to reassure markets, but unlikely to spark a notable rally in ROMGBs, where valuations already appear relatively high.

At the same time, EUR/RON has stabilised in the 5.02-5.04 range in recent days, and we do not expect the central bank to be willing to go below 5.00 or 5.02 again. We therefore find EUR/RON asymmetric at the moment and more of a market for negative surprises in the negotiations.

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