

## FX Daily: Domestic stories gain centrality

This week, the quiet US calendar will allow domestic stories to gain relevance. Ahead of eurozone PMIs and UK inflation, we'll see Canadian CPI and New Zealand's next central bank meeting in the next 24 hours. We think data can convince the Bank of Canada to cut in June, while we don't see the RBNZ turning dovish



### ➔ USD: Finding some support

The dollar has been stronger since the start of the week as bond yields inched higher and the equities rally paused. Despite some encouraging news on the US data side, our rates team continues to see upside risks for Treasury yields in the near term, and we are doubtful we'll see much more USD softness into the end of May.

The developments in Iran have so far had a small impact on markets. The coming days will tell us whether Iran may face some political turmoil ahead of new presidential elections, and whether that can have implications for the Israel-Hamas war or for diplomatic relations with the West. So far, markets have not drawn any obvious conclusions for commodities prices, which are normally where any initial impact would become visible.

Today's economic calendar includes the Philadelphia Fed non-manufacturing index (which should not move the market), and speeches by FOMC members including Christopher Waller, John

Williams, Raphael Bostic and Tom Barkin. Expectations for total Fed easing by year-end has been modestly scaled back to 42bp, but we suspect the next major move in OIS pricing will not come before the 31 May US core PCE.

Our view remains neutral on the dollar in the coming days, although risks appear skewed slightly to the upside. Domestic stories, like CPI in Canada, the UK and Japan and PMIs in the eurozone may drive divergence within G10 as the USD may fail to set a clear direction this week. There is also a policy meeting in New Zealand overnight (here is [our preview](#)) and we think that the lack of dovish signals can help NZD. At the same time, we continue to see upside risks to USD/JPY in the near term.

*Francesco Pesole*

## ➔ EUR: Stuck in a range

EUR/USD appears stuck in a rather small trading range, as some recovery in the dollar was primarily driven by the underperforming AUD, NZD and JPY yesterday, while the likes of EUR, CAD and NOK held stable.

The Swedish krona started the week on a stronger foot after Riksbank Governor Erik Thedeen said that a rate cut in June was not on the table, pouring cold water on easing expectations (now only 30%) after April inflation came in lower than expected. Thedeen has generally stood on the hawkish/cautious side of the policy discussion in Sweden, and has remained very vocal on the risks of a weaker krona. EUR/SEK at 11.61 is good news for the Riksbank, as its May rate cut gamble is so far paying off thanks to lower USD rates and better risk sentiment. If policymakers rule out a June cut in further communication, SEK can probably move more in line with NOK, albeit still facing greater domestic downside risks.

Back to EUR/USD, we are not expecting major swings today as the data calendars in the eurozone and US are light. A speech by European Central Bank President Christine Lagarde today at an event in honour of Janet Yellen may not touch on monetary policy at all.

*Francesco Pesole*

## ⬇ CAD: Key inflation data today

The Canadian dollar has lagged all other pro-cyclical currencies since the start of May due to its correlation with US data and Fed rate expectations. We have called for a Bank of Canada 25bp rate cut in June for the past couple of months, and are expecting that to make the loonie increasingly less attractive compared to other commodity currencies.

Inflation remaining close to target has been the main argument for a June cut, but the spike in April's hiring in Canada has intruded the dovish case. Some improvement on the disinflation front may now be needed for markets to make a conviction call on a June move, so today's April CPI data in Canada is key. We'll be particularly focused on whether the core CPI "trim" measure will follow the other BoC preferred core gauge ("median") below 3.0%. That would place all key inflation measures, core and headline, within the 1-3% inflation target band – and would make it much harder for the BoC to justify restrictive policy for longer.

We think markets are underpricing (11bp) the chances of a June cut in Canada. We also think there is room for CAD to drop in the crosses as the June move is increasingly priced in and markets

consequently raise dovish bets across the CAD curve. If inflation moves lower as we expect today, then USD/CAD can eye 1.3700 again in the coming days. Crosses like CAD/NOK and NZD/CAD may display the policy divergence quite distinctly.

*Francesco Pesole*

## HUF: NBH set to cut rates further with hawkish tone supporting FX

A meeting for the National Bank of Hungary is scheduled for today. In line with market expectations, we forecast another 50bp rate cut to 7.25%. The forint has been remarkably strong since the central bank's last decision, so both market stability and macro fundamentals would, in our view, justify maintaining the previous pace of rate cuts. The focus today will be mainly on the post-decision press conference, as well as NBH communication on the next meeting and what to expect in June – which could be last live meeting for some time.

The HUF has had a three-week rally and is at its strongest since mid-February. In addition, global conditions and the risk-on mode of the market these days is supporting further gains for the HUF and the entire CEE region. At the same time, positioning in the HUF market does not seem as heavy as in PLN and CZK. On the other hand, we have been pointing to a significant disconnect between rates and FX for some time now, while there remains significant fiscal risk and rating agency views. In the short term, we may see more gains for HUF, which may also be due to the hawkish tone of the NBH. In the medium term, however, we remain more negative and still see EUR/HUF in the 390-395 range later.

*Frantisek Taborsky*

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