

FX Daily: Big EU step in the right direction

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⬇️ USD: The dollar left struggling

The combination of an agreement on an EU recovery fund (and the EU budget) and news on progress on a Covid-19 vaccine in Oxford University testing should keep the risk environment supported today, with the dollar left struggling against its G10 peers. We see European FX as well-positioned this week and look for outperformance, with Scandinavian currencies looking attractive.

⬆️ EUR: Few reasons to “sell the fact”

The euro's reaction to the agreement on the EU recovery fund and the EU budget (see [EU Summit for details](#)) was quite muted overnight, largely because the optimism about a deal had been priced into the euro since the start of last week. While we don't think the currency's reaction will fully reflect “buy the rumour, sell the fact” mechanics, its upside above 1.15 is likely to be limited. But equally, the agreement is significant enough (the emergence of grants points to solidarity; the emergence of common bonds points to integration) not to prompt investors to exit their long EUR positions (particularly against USD, where the outlook for the remainder of the year looks bleak). With EUR-specific good news largely priced in, we expect the next leg of EUR/USD upside to come from the dollar side, with the US currency's downtrend caused by a mix of loose monetary policy,

twin deficits and US election uncertainty.

➔ GBP: Limited gains

While sterling reacted positively yesterday, we see limited scope for EUR/GBP to break below the 0.90 level. The pound should remain a laggard among European FX (we prefer Norway's krone and Sweden's krona as the main beneficiaries from the EU recovery fund agreement - indeed, EUR/SEK broke below the 10.30 level and EUR/NOK is flirting with the 10.50 support level) with the UK-EU trade negotiations overhang being the key obstacle for persistent GBP gains this summer.

➔ HUF: The last signalled NBH rate cut a non-event for HUF

We expect the National Bank of Hungary to deliver one last 15 basis point rate cut to the base rate and the one-week depo rate today. As this was already fully pre-signalled and is largely priced in, the rate cut should be a non-event for the forint. We look for stable EUR/HUF and lower PLN/HUF. On the latter, compared to the National Bank of Poland, the NBH has paused quantitative easing in recent weeks while it retains a higher interbank rate than the NBP (as well as the Czech National Bank). Importantly, HUF no longer negatively stands out on the real rate side, exerting less negative real rate than Poland's zloty and the Czech koruna. We target a PLN/HUF 78.00 level this summer.

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