

FX Daily: Euro takes a hit on the European elections

The poor showing of incumbent political parties in France and Germany at the weekend's European Parliamentary elections - plus President Macron's decision to dissolve parliament - are weighing on the single currency. Focus on French elections called for 30 June can hold the currency back this month. Elsewhere this week is all about the Fed and US CPI



French President Emmanuel Macron delivers a speech following the results of the European elections

USD: Dollar gets a lift from payrolls and European political uncertainty

The dollar has had a good couple of sessions. It has been buoyed by both Friday's [stronger-than-expected US jobs report](#) and by weekend results from European Parliamentary elections, which have resulted in French President Emmanuel Macron gambling with a call for early elections. Some political uncertainty in Europe, at a time when the US economy continues to perform well, weakens the case for holding anything other than the high-yielding dollar. Notably, the dollar pays the highest one-week deposit rates in the G10 space at 5.37% per annum.

In terms of the US story this week, the focus is very much going to be on Wednesday. Here,

investors will receive updates on both the latest (May) US CPI figure and also hear the latest policy decision from the Federal Reserve. Wednesday's FOMC will also see the Fed present its latest quarterly projections, which include its Dot Plots. Most are expecting those median Dot Plots to show the Fed scaling back its expectations of rate cuts this year to two, or even to one from the three rate cuts expected in the last set of projections in March.

The above conditions are clearly not the right ones to encourage a dollar sell-off. And it may be that French elections now deter investors from selling dollars for the entire month of June. DXY has broken back into this year's bull channel and has gapped higher overnight. The bottom of the gap at 104.96 will now prove support and the near-term bias looks to lie towards the 105.55 and possibly the 106.00 area.

Chris Turner

⬇️ EUR: Political uncertainty returns to the euro

EUR/USD has sold off around 0.5% on the back of the weak results in European parliamentary elections. It has been independent weakness in the euro here, where EUR/GBP and EUR/CHF have broken down sharply. Most expected a rightward shift in these elections and the results do suggest that Ursula von der Leyen's European People's Party (EPP) will still be able to command a majority in the European Parliament. Yet it is events in France that have hit the headlines. President Macron's party has performed so poorly, gathering just 15% of the vote, that he's dissolved parliament and called elections for 30 June (second round 7 July). This move is widely seen as a gamble either to question the French electorate on whether they really want a far-right government or to give the electorate three years' experience with a far-right government ahead of the next French presidential election in 2027. While Marine Le Pen's National Rally party has shifted away from the anti-euro manifesto it ran on in 2017, fears about shifting support for Ukraine stand to unnerve markets.

Today EUR/USD may well have another leg lower to the 1.0700/0720 area once US investors fully have a chance to appreciate events in European politics. And the risks of another uncomfortable 0.3% month-on-month US core CPI print on Wednesday will probably keep the dollar in the ascendancy until we hear from the Fed Wednesday evening.

Chris Turner

⬆️ GBP: European travails see EUR/GBP break 0.85

EUR/GBP has broken big support at 0.8500 and is towards the lowest levels since 2022. The gap lower in Asia now means that the top of the gap at 0.8490 marks strong short term resistance. Expect to hear much made of the diverging political scenes, where the forthcoming UK general election is expected to present the UK with a very large Labour majority, whereas the French election promises to deliver a parliament diametrically opposed to the presidency.

We probably cannot rule out EUR/GBP edging a little lower this week - perhaps to 0.8400. Tomorrow's UK April's jobs data could add to the move if wages stay sticky above 6%. But we think this sterling rally does not last and probably reverses next week when we hear from the Bank of England next Thursday - likely preparing the market for an August rate cut.

Chris Turner

📌 CEE: Inflation prints and US payroll echoes set the tone for this week

The results of the weekend European parliamentary elections could unnerve CEE currencies today. And the threat of Le Pen's party doing well at elections on 30 June - plus what that means for Europe's commitment to Ukraine - may well demand a risk premium in CEE currencies this month.

In the economic space, this week in the CEE region will be marked by inflation prints. Today we will see the May inflation number in Hungary, which will be hit by the base effect from last year. We expect a rise from 3.7% to 4.2% year-on-year, in line with expectations. On the other hand, core inflation should fall from 4.1% to 3.8% YoY. We will see another inflation print in the Czech Republic on Tuesday. Here, we expect a tick down from 2.9% to 2.8% YoY. Food prices, which were the reason for the upside surprise in April, should correct slightly.

At the same time, as in Hungary, fuel prices are pushing headline inflation down. Current account data will be released on Thursday in Poland and the Czech Republic. On Friday in Poland we will see final inflation data, which should confirm 2.5% YoY. We will also see the Fitch rating review of Hungary, where our economists see a high chance for a downgrade.

Friday's US labour market data turned the EM market into a sell-off mode again that hit CEE FX hard. Core rates jumped significantly on Friday and the following days should see CEE rate markets catch up with the move. Of course, inflation prints will also play a big role, which may result in significant FX volatility this week. However, at the start of the week we see PLN (which lost the most on Friday) as the most undervalued currency in the region due to the rate differential, which hasn't changed much. But a return to 4.280 EUR/PLN may appear to be a challenge now. EUR/HUF seems to be at fair levels at the moment, while we see EUR/CZK higher at 24.80.

Frantisek Taborsky

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.