

FX Daily: Failing to find USD positives

The dollar continues to weaken, as prospects for an economic recovery are hit further by a spike in Covid-19 cases



⬇️ USD: Failing to find any positives

The US dollar shrugged off concerns about the US-China trade situation fairly quickly and the dollar embarked again on a broader weakening trend. The ongoing spike in Covid-19 cases in the US is not helpful for USD either, keeping the prospects of a fast economic recovery at bay. Indeed, compared to previous weeks, the dollar decline this time is not being driven by the reflation dynamics (with the US Treasury curve missing the prior steepening trend). The New Zealand dollar underperformed overnight as the Reserve Bank of New Zealand reiterated downside risks to the economy and identified an appreciating NZD as putting pressure on export earnings.

⬆️ EUR: Another sign of a gradual recovery ahead

We are looking for a modest improvement in German June IFO, in line with the increase in the eurozone PMI yesterday. But as the June PMI showed, the rise is likely to be gradual. With the USD trading on the back foot, EUR/USD should remain above the 1.1300 level today. In Sweden, the focus is on the June Economic Tendency Indicator. It is expected to increase (as is the case for forward looking indicators elsewhere), yet what matters more for the Swedish krona is global risk appetite. EUR/SEK to hover around or below the 10.50 level. In Hungary, the central bank delivered a surprising 15 basis point rate cut yesterday but we expect the negative effect on the forint to be

one-off rather than the start of a strong HUF bearish trend. The 15bp cut to both the base and 1-week depo rates is not overly aggressive, no cap on 1-week depo facility was introduced, there is no firm forward guidance on further cuts and QE is on hold. EUR/HUF should not exceed 350 materially.

📉 GBP: Reopening plans to have limited effect on GBP

The UK government's plan to lift lockdown measures should have a muted impact on sterling as it does not alter the key GBP driving factor – the uncertainty about the UK-EU trade deal. GBP to remain the European FX underperformer, despite the benign risk appetite.

➡️ CZK: The CNB unlikely to follow the footsteps of the NBH

Unlike the National Bank of Hungary yesterday, we don't expect the Czech National Bank to surprise the market today and the bank should stay on hold. The board members' communication pointed to an on-hold decision while the bank has already delivered a cut larger than the CNB's staff recommendation in May. The expected on-hold decision should have muted impact on the koruna as the market is pricing in a low probability of a cut. The relatively strong fiscal position, an inflation-minded central bank and, in our view, low odds of FX intervention to lean against possible CZK strength (CPI is slowing gradually and deflation risks are not present now) all make the koruna attractive.

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