

FX Daily: Focus on G7 summit headlines

A quiet data calendar is allowing the USD bearish trend to re-emerge. However, some USD-positive headlines on trade may come out of the ongoing G7 summit in Canada – that is, barring any indications that the US is indeed discussing FX agreements with key trading partners. Anyway, dollar rebounds should prove short-lived unless endorsed by better US data



The G7 summit could yield some USD-positive headlines on trade this week

USD: Hoping for some positive headlines from Canada

Periods of data silence often serve as a useful gauge of the market's underlying bias in FX. So far this week, the tendency to add to USD short positions has been clear, even though the greenback remains notably undervalued against most G10 currencies when judged by short-term drivers such as rates and equity differentials.

Expect an intensification of headlines from the G7 meeting running in Canada until tomorrow. As discussed in [this note](#), there is a low probability-high impact of any suggestions that the G7's longstanding commitment to allow free floating of exchange rates might be revised to allow dollar weakening. US Treasury Secretary Scott Bessent is set to hold several bilateral meetings in the coming days, and markets will be watching closely for any signals that currency agreements are

on the table. If current speculation proves accurate – and the US is pushing for stronger trading partner currencies – it could not only prompt sharp appreciation in those currencies but also weigh on the dollar more broadly.

Beyond this, other news from the summit is unlikely to hurt the dollar. While a broader push to end the war in Ukraine would have led to some dollar weakness until a few months ago, the greenback is no longer trading as a traditional safe haven. Incidentally, recent developments suggest that the US administration tends to dial down trade tensions after direct talks with other leaders, and any signs of de-escalation should provide some support for the dollar.

Markets' inclination to sell the dollar in the rallies should remain, and moves above 100.0-100.5 in DXY may prove short-lived.

Francesco Pesole

EUR: 1.150 looks premature

European currencies in general are enjoying good momentum, with the Swiss franc and the Swedish krona on top of this week's G10 scorecard. This is a testament to markets looking both for USD alternatives (CHF) and possibly playing some optimistic views on a Ukraine-Russia peace deal (SEK, NOK). The euro can draw benefits from both of these storylines, while the franc is at risk of a positioning-exacerbated correction should a truce in Ukraine be reached.

On the domestic side, there is still very little driving the euro for now. We have a few European Central Bank speakers to watch, including Chief Economist Philip Lane, but the Governing Council's stance has been rather lenient towards market pricing of late, and markets should keep cementing expectations for two cuts this year, leaving little room for EUR short-term swap rate mobility.

We think some USD-positive headlines on trade coming from the G7 summit in Canada can put a lid on EUR/USD before the end of the week. The next key level is 1.150, but markets may want to back such a level with softer US data and perhaps a more optimistic story on Russia-Ukraine. For now, it seems a bit premature, and we prefer 1.130 as a near-term target.

Francesco Pesole

GBP: Don't take inflation spike

UK inflation for April surprised on the hot side this morning, with service CPI spiking from 4.7% to 5.4% against expectations for 4.8%. Our UK economist notes that a closer look at the data shows that most of the jump can be traced back to a spike in road tax, which had an outsized effect, along with higher airfares and package holiday prices, both of which were skewed by the timing of Easter and the specific measurement day in April. Meanwhile, key components like rents, catering, and medical care all saw their year-on-year inflation rates continue to ease.

So, there are reasons for the Bank of England to look past this hot CPI print. And while expectations for a June hold are all but cemented, it doesn't look like enough to dismiss an August cut as the underlying services inflation trend is still improving when discounting tax-related distortions.

The pound is moderately stronger across the board following the CPI release. We have been subscribers of a bearish EUR/GBP stance of late and a more cautious Bank of England cutting cycle should keep the rate differential wide and favouring downside explorations in the pair. We think a

break below 0.840 remains a tangible possibility in the coming weeks.

Francesco Pesole

PLN: Weak data to push zloty weaker again

Today, we will see the first data release in the region this week focused on Poland. Wages, industrial production and PPI data for April will be released this morning. In recent months, we have seen Polish data mostly surprise on the negative side, and we believe this trend will continue. We're therefore below market expectations for today's data as well, which should support the re-pricing of National Bank of Poland rate cuts.

We think the market reaction in the IRS curve on Monday was somehow opposite to what we would have expected, and the market assessed the election outcome as hawkish. However, we believe the rate cuts will continue regardless of the election outcome, especially due to weaker data from the economy, which should be confirmed today. We believe the front of the IRS curve has room to price in some rate cuts again and push for weaker FX.

EUR/PLN touched the lowest levels in a week yesterday, coming from a combination of higher EUR/USD, higher PLN rates and probably some market hopes for progress in the Ukraine-Russia deal negotiations. However, we believe local drivers should push PLN to weaker levels above 4.250 again.

Frantisek Taborsky

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

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