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FX

FX Daily: Focus shifts from Middle East to Powell

Iran and Israel have agreed to a ceasefire, and markets had already started pricing out geopolitical risk yesterday as Iran's retaliatory strikes against the US appeared measured in size. The dollar is facing fresh pressure on the back of plummeting oil prices, and downside risks for USD remain elevated ahead of Fed Chair Powell's testimony later today



Jerome Powell's testimony later today can add pressure to the dollar

📉 USD: Fed independence risks can take over now

Markets are materially scaling back geopolitical risk as President Trump declared that a ceasefire between Iran and Israel is in place following measured retaliatory strikes on US positions in Qatar yesterday. This morning, Israel confirmed it has agreed to a ceasefire, prompting another leg lower in oil prices, which are now more than 15% off Monday's open.

The support that had built for the dollar – albeit moderate in size – over the past few days has faltered on the back of the oil correction, but we think a growing dovish front in the FOMC is also doing quite a lot of harm to the greenback. After Christopher Waller and Michelle Bowman – both Trump appointees – openly showed support for cutting rates even as early as July, Chicago Fed President Austan Goolsbee also sounded open to easing yesterday, even though

he didn't discuss timing.

Today, Chair Jay Powell faces Congress in a testimony where he will likely be intensively questioned on the Fed's cautious approach to easing, echoing criticism from Trump. The risks of some dovish hints by Powell and, by extension, downside risks for the dollar have increased after the latest comments by Waller and Bowman, in our view. Crucially, markets may treat any tweaks in Powell's stance as an indication that Trump's political pressure has breached the independence shield of the Fed – and that has the potential to drive substantial USD depreciation. The USD OIS curve is now fully pricing in a September cut, compared to less than 20bp at Monday's open. A July cut is now 23% priced in.

Even without a dovish surprise from Powell, DXY may well retest the 97.62 lows in the coming days, as markets are much freer to jump back into popular strategic dollar shorts now that geopolitical and oil risks are being priced out. Some support may come from a potential return above 100 in the Conference Board Consumer Confidence, whose June print is published this afternoon, but that may not prove enough to take the dollar on a sustainable recovery.

Francesco Pesole

📈 EUR: Breaking the range?

[Eurozone PMIs](#) came in largely in line with expectations yesterday, signalling that business sentiment has stabilised after the tariff scare but still points to stagnation. This morning, the German IFO will complete the picture for June's activity surveys.

The euro would benefit from an improvement in domestic activity indicators, but those are neither particularly likely nor necessary to take EUR/USD higher from here. That's because the euro continues to benefit from the buildup of dollar shorts and its substitution value rather than any strong eurozone narrative. Incidentally, the drop in oil prices means concerns about the erosion of EUR fundamentals are dissipating.

EUR/USD is re-testing the 1.1630 intraday highs this morning. Much of the direction today will depend on whether markets find any dovish hints in Powell's testimony, which holds the keys for a decisive break higher. Barring that, we remain unconvinced that there is enough thrust to keep EUR/USD sustainably bid beyond the 1.1600 mark, considering the calm in the Treasury market and extensive overvaluation.

Markets will also keep a close eye on the NATO summit in the Netherlands, where NATO leadership is trying to build consensus on a 5% defence spending commitment.

Francesco Pesole

↑ CEE: Getting more bullish

Yesterday's market reactions to the weekend events in the Middle East were milder than we expected in general. In the CEE region, HUF took the biggest hit as expected, while CZK remains the most resilient currency. However, all currencies were weaker in EUR-crosses at the end of the day. But as we discussed here yesterday, we believe the weakness is only temporary and opens the market to interesting levels. At the end of this Middle East story for the CEE region, the bottom line is higher energy prices and more hawkish central banks. For Hungary and the Czech Republic, this development likely means that any hopes for rate cuts this year are off the table. In Poland, higher energy prices are expected to slow down the pace of rate cuts. The likelihood of a rate cut in the July meeting is decreasing, with the next potential cut now anticipated in September.

Overall, we see more support for CEE FX from central banks than two or three weeks ago. Therefore, any weakness is an opportunity to fade the market move in our view. Moreover, CEE currencies are becoming more attractive in USD-crosses. Thus, we are more bullish after yesterday's mild reaction in the region, where today's NBH meeting should support HUF and tomorrow's CNB will support CZK in our view.

Frantisek Taborsky

↑ HUF: NBH must increase hawkishness to protect FX

The National Bank of Hungary is likely to leave rates unchanged today at 6.50% in line with market expectations. The central bank is expected to confirm the hawkish message from the last meetings and perhaps increase the amount of hawkishness, given some upside inflation surprises and the current developments in the Middle East, which clearly threaten FX and price stability in Hungary. The new forecast will also be in the spotlight, where we are likely to see a worse outlook for the economy this year and next.

The market has priced in roughly two rate cuts this year over the past few weeks, leaving only one at the end of the year. At the same time, the priced terminal rate has risen from roughly 5.00% to 5.60%. Our economists do not expect any rate cut this year and the NBH should not return to rate cuts until early next year. Moreover, the current energy price developments, geopolitical uncertainty and pressure on the HUF should keep the central bank's tone strongly hawkish.

EUR/HUF almost touched 404.5 yesterday, the highest since late May, and as we expected, was the most affected currency in the CEE region after the risk-off trigger this weekend. However, as we discussed here yesterday, we believe any weakness in HUF should fade and the market should sell EUR/HUF ahead of the NBH meeting today, which should protect the currency and head back below 402.

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