FX Daily: Focused on macro

Markets have not reacted to Saturday's incident involving Donald Trump. The intense activity on the macro side is probably allowing markets to keep a close eye on any implications for the US presidential race. This week, Fed speakers will have to address softer CPI, and the ECB may not want to surprise markets amid high economic and political uncertainty

USD: Fed may have to soften its tone after CPI

We are not observing any material turmoil in markets following Saturday's shooting in Pennsylvania, where Donald Trump was injured. It is too early to tell whether this can have implications for the race – and by extension to market positioning ahead of the election. It is possible, however, that the current noise around this event may lift some attention from the Democratic leadership debate. After President Joe Biden's press conference at the NATO summit last week, speculation on his possible withdrawal seemed to intensify. Still, PredictIt's odds-implied probability of Biden running in November have continued to rise over the weekend to around 70%.

FX investors remain focused on macro developments. China's GDP miss overnight has failed to give support to the greenback and is generally weaker since the June US CPI data surprised on the downside last Thursday. Interestingly, the post-CPI move faded, but the dollar softened again on

Friday despite PPI data actually coming in hotter.

Anyway, the net effect on the swap market is a full conviction call on the September rate cut, which is fully priced in. This has been our call and we expect incoming data, including in the jobs market, to confirm that expectation. We expect 75bp in total by year-end, and markets remain slightly more on the dovish side with 62bp priced in.

The data calendar is quieter this week. We have the Empire Manufacturing index today, retail sales for June tomorrow, the Federal Reserve's Beige Book on Wednesday and the Leading Index on Thursday. We'll be interested to see whether continuing jobless claims will tick higher again after a surprising (albeit marginal) contraction last week. That index had been rising since early May and at a faster pace since early June, a signal that more and more Americans are struggling to rejoin the labour market – in line with the contraction in job openings.

Fed speakers will have to comment on the latest CPI figures, and when compared to the June Dot Plot, there are clear risks of dovish readjustments in many FOMC members' communication. Austan Goolsbee, a dovish leaning member, delivered some dovish remarks on Friday. Fed Chair Jerome Powell and Mary Daly speak today, and both have put greater emphasis on a jobs market inflection recently.

We think risks are quite balanced for the dollar this week, and we could see a consolidation around new levels in many USD crosses. DXY may keep hovering around the low 104s. Lower FX volatility is never good news for the yen, and USD/JPY showed a tendency to trade higher following the last two FX intervention. While it's still not officially confirmed, Bank of Japan accounts point to JPY3.5tn worth of FX intervention last week.

Francesco Pesole

EUR: French political risk should not be ignored

The softer dollar story has boosted EUR/USD in July – but we still think the volatile situation in French politics is a risk that cannot be ignored, and point at least to the euro lagging most other pro-cyclical currencies in any new USD selloffs.

We also doubt that any long-lasting support for the euro will come from the European Central Bank's meeting on Thursday (here is our economics team's latest preview). Core CPI held at 2.9% year-on-year in June, confirming that the disinflation process has stalled in the eurozone, but volatility in the EGB markets due to French politics may argue against excessively hawkish comments.

Eurozone money markets are naturally influenced by the recent dovish repricing in Fed expectations. If ECB President Christine Lagarde's "divergence" punchline was convincing when the ECB had to lead the Fed in easing, a hawkish ECB in an environment of Fed cuts will be a harder sell to investors. Markets may continue to price in well above 50% of a second cut in December after a fully factored-in 25bp move by October.

On the data side, the highlight of the week is the German ZEW index tomorrow, which is expected to show a further loss of momentum in leading activity indicators. The ECB's bank lending survey on Tuesday will also give an important update on the tightening effect on eurozone credit supply. We struggle to see EUR/USD trading close to 1.10 in an environment where many questions on

French politics remain unanswered, but 1.0900 may prove to be an anchor in the short term.

Francesco Pesole

GBP: Key data releases this week

The UK will hope to have more luck on the economic data side than on the football pitch this week. The June CPI report on Wednesday can tilt the balance for a Bank of England rate cut on 1 August. Our economist's expectations are in line with consensus for headline (1.9% YoY) and services inflation (5.6%), and a touch below consensus for core CPI (3.4%).

That would mark some modest improvement on the inflation picture, but also shouldn't be sufficient to fully convince markets of an August cut (now 13bp in the price), given the recent hawkish comments by BoE officials, including Chief Economist Huw Pill. A similar reasoning can be applied to the jobs report due on Thursday.

Given that no BoE speakers are scheduled before the 1 August meeting, there are no strong reasons to expect a major loss of momentum for the pound this week, unless CPI data surprises on the downside. Our call remains for an August cut, also considering the pressure from rising Fed cut bets, so we expect weakness in the pound to emerge in a couple of weeks' time. EUR:GBP short-term rate differential suggests EUR/GBP is cheap at 0.8400, and we continue to see good room for a rebound despite any euro idiosyncratic issues.

Francesco Pesole

CEE: Each currency is finding its own way

After a busy two weeks, we have a bit of relief in the CEE region with a light calendar and only more or less secondary data. Today in Poland, we will see the final inflation numbers for June, which should be confirmed at 2.6% YoY, and tomorrow for core inflation at 3.7% YoY. Today will also see the release of current account data in Poland and the Czech Republic. On Wednesday, we will see PPI in the Czech Republic. Thursday in Poland will see the release of industrial production, wage data and PPI. We expect weaker industrial numbers and steady wage growth here. We also inch closer to the August Czech National Bank meeting this week and will likely see more comments from the board. For now, we have seen rather hawkish comments supporting our 25bp rate cut call.

In the FX space, it seems that every currency in the CEE region is focusing on different drivers these days. EUR/CZK remains a rates play in our view, and central bankers' pushback of dovish bets could come into play this week. On Friday, we already saw some reversal below 25.400 – and if we read the CNB right, we could see more movement this week into the 25.200-300 range.

EUR/PLN looks fairly priced in to us at the moment and only another rally in the rates market would, in our view, be a reason for PLN to weaken, which is what rates have been pointing towards the last few days. EUR/HUF seems to benefit the most from the global risk-on sentiment and at the moment is most driven by global drivers, ignoring the massive rally in the rates market and the significant narrowing of the rate differential. While we do not believe the divergence from rates can last for a longer period of time, for now it is positive for the HUF, which may see further gains below 392 EUR/HUF.

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