

FX Daily: Four G10 central banks in action this week

European FX markets open in a consolidative mood after Friday's volatility. Events in France will continue to catch attention, but in the G10 space this week, the focus will be on central bank meetings in the UK, Australia, Switzerland and Norway. The Fed/dollar story should probably take a back seat, unless Tuesday's May US retail sales data surprises



The focus in the G10 space this week will firmly be on key central bank meetings - and in the UK, we think it will be the Bank of England story which drives sterling

➔ USD: US calendar may take a back seat

FX markets open up in a steady fashion after Friday's volatility. That session can largely be characterised as investors shifting to more defensive positioning ahead of the French election risk later this month.

We do not look for the US data calendar to be a major driver of FX markets this week. The highlight will be Tuesday's release of US May retail sales, where the Retail Sales Control Group measure is expected to bounce back to 0.4% month-on-month having fallen 0.3% in April. At last week's [FOMC meeting](#), Chair Jerome Powell characterised the US consumer as 'solid' and unless there is another downside surprise here, we cannot see market pricing of one-and-a-half Federal Reserve rate cuts

this year moving substantially.

In international news, China's May activity data came out mixed. Despite some speculation over a rate cut, the People's Bank of China kept the [one-year MLF policy rate](#) stable. We read that as the PBoC prioritising a stable renminbi.

DXY continues to thrash around in a broad 104.00-106.50 range. Unless tomorrow's US retail sales very much disappoint, French election risk should keep DXE generally supported.

Chris Turner

⬇ EUR: Staying defensive

French bond futures were lower in Asia after a weekend poll showed Marine Le Pen's National Rally party maintaining a substantial lead ahead of the first round of French elections on 30 June. Friday had seen some heavy selling of euros, especially in the FX options space, where short-dated volatility surged, and the cost of buying a euro put over an equivalent euro call option dramatically increased.

It is hard to see investors' fears of French election risk being assuaged this week, although plenty of European Central Bank source stories suggest that those in Frankfurt are not panicking. In focus today will be tonight's meeting of EU leaders and who gets the top jobs in Brussels. It is thought that Ursula von der Leyen will secure a second term as president of the European Commission after her EPP party won the largest number of EU parliamentary seats in recent elections.

In terms of data, the highlight of the eurozone calendar is probably Friday's release of flash PMIs for June. Here, some further modest improvement is expected – albeit with manufacturing sentiment remaining sub-50.

We can see EUR/USD remaining offered in a 1.0700/0720 range this week, unless tomorrow's US retail sales release disappoints.

Elsewhere, Thursday sees Norges Bank meet. There does not seem a strong case for Norges Bank to turn substantially more dovish (although credit growth has slowed substantially) and assuming the slightly softer US rate environment can endure, EUR/NOK looks biased towards 11.40. Equally, tomorrow [sees a Reserve Bank of Australia meeting](#). The RBA has more reason to be hawkish than most and we continue to think that EUR/AUD can come substantially lower.

Chris Turner

⬇ GBP: Tories face 'electoral extinction'

Weekend opinion polls continue to show a huge lead for the UK Labour Party ahead of the 4 July general election. Some in the Conservative Party are warning about Labour securing a 'supermajority'. We're not sure if the Tories are trying to link the risk to events in Mexico – the Morena party's massive win and the threat of constitutional reform upending local asset markets? The UK's sovereign Credit Default Swap (CDS) did rise last week, but it did so in Germany as well. This is presumably on the back of developments in France.

However, we think it will be the Bank of England story which drives sterling this week. Wednesday/Thursday this week should deliver a [double-header of negative](#) news for the pound.

Here, UK May services CPI should drop sharply on Wednesday and be followed up a day later with tweaks to the BoE policy statement which hint at an August rate cut.

GBP/USD has stalled at 1.2800/2850 and we see risks to the 1.2540/80 area this week.

Chris Turner

CHF: SNB could lift the CHF on Thursday

EUR/CHF has once again become the FX market's focal point for eurozone stress. It has seen a pretty substantial 4% drop in just a couple of weeks. Its strength means that market expectations for this Thursday's Swiss National bank meeting – which were at 50-50 for another cut – have now swung to 73% in favour of a cut. The assumption here is that the SNB needs to follow through with another cut or else EUR/CHF could fall even more sharply. We think that that logic makes sense. Yet some argue that the SNB will not want to send a signal with back-to-back rate cuts that it is content with the inflation profile, citing recent speeches from Chair Thomas Jordan about the residual upside risks to inflation.

In short, we caution against fighting the EUR/CHF bear trend given the ongoing challenges of French politics and the risk that the SNB does not cut after all.

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