

## FX Daily: Fully justified rebound for sterling

The post Scottish election GBP rebound was fully justified and with the UK economy on the clear reopening path, more gains are ahead for the pound this quarter. In central and eastern Europe, rising Czech CPI should support the koruna while higher Hungarian CPI should weigh on the forint. Meanwhile, there's a Polish Supreme Court ruling on FX mortgages



### ➔ USD: Short-lived consolidation

The dollar decline is taking a pause and with limited data points in the US and other developed markets today, the dollar looks to consolidate ahead of the April US CPI tomorrow. The periods of dollar consolidation should be short-lived and shallow, and the expected spike in US CPI close to 4% YoY tomorrow should weigh on USD (as it will further depress the US real rate). As per our [May FX Talking](#), the Federal Reserve's lack of response to rising price pressures should weigh on USD in coming months, while commodity currencies where local central banks are set to react to capacity

constraints (as in Canada and Norway) should do well.

## ➔ EUR: Trading sideways

EUR/USD is set to trade sideways today, yet should stay above 1.2100. In the Czech Republic, the April CPI is to increase to 2.8% (still staying within the 1-3% tolerance band), validating [CNB Governor Rusnok's hawkish comments](#) last week about rate hikes this year. As the CNB is proactive to rising prices (in contrast to Hungary's central bank – see below), CZK is set to benefit, unlike HUF. EUR/CZK to breach below the 25.50 level soon. In Poland, the focus today is on the second Polish Supreme Court ruling on FX mortgages which should help to clarify the extent of potential losses for the banking sector.

## ⬆️ GBP: Fully justified rebound

After trading with a persistent risk premium over the past three weeks (largely due to political risks) the sterling rally yesterday all but fully closed the short-term valuation gap, with EUR/GBP now at trading at its short-term financial fair value. As we have argued previously, the Scottish elections were not supposed to have a long lasting negative impact on GBP and the GBP rally yesterday provided a case in point. With the UK government confirming the next step of the reopening of the economy, the solid UK data points this quarter should benefit GBP. The Queen's speech today should have a limited impact on the pound. We look for EUR/GBP to converge to the 0.85 level in coming weeks and further gains in GBP/USD.

## ⬇️ HUF: Surging CPI to weigh on HUF

In Hungary, April CPI should surge dramatically, reaching 4.9% YoY due to the low base and partial reopening. This should send the real rate into deeply negative territory and make HUF vulnerable this quarter (we expect May CPI to be at / above 5%). With the [National Bank of Poland already changing its dovish stance due to the surging CPI](#), we eventually expect a similar trend from the NBH with the central bank delivering hikes in the 1-week depo rate this quarter. However, with the NBH's willingness to deliver pre-emptive hikes seemingly low, we expect HUF to come under pressure first and EUR/HUF to move meaningfully above 360 this month.