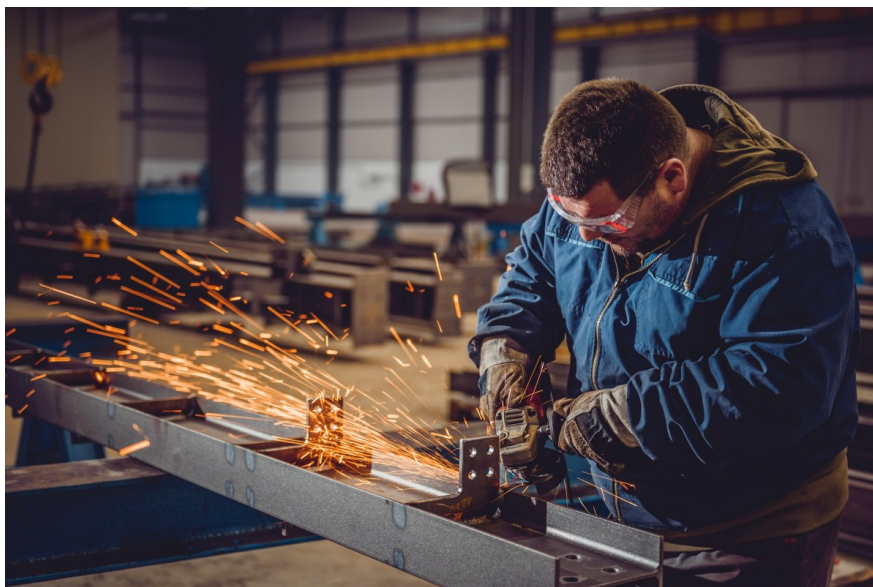


## FX Daily: Glimmers of manufacturing hope

Manufacturing data from the eurozone and UK today is likely to show signs of recovery but markets remain very sensitive to bad news, as seen by the reaction to White House comments over the US-China trade deal



### 👆 USD: White House sparks volatile moves

Markets have been on a short-term roller coaster ride after [White House advisor Peter Navarro said the US-China trade deal was "over"](#) before being contradicted by President Trump, who said the deal was "fully intact". Navarro later said his comments had been taken "wildly out of context". Unsurprisingly, the market remains heavily sensitive to the prospects of any re-escalation in the US-China trade war, suggesting that even after the overnight U-turn, one should not expect much of a recovery in G10 cyclical currencies vs the USD today, and the trade-weighted dollar should stay supported for now (unless June eurozone PMIs surprise on the upside today – see below).

### 👆 EUR: Watching the recovery - manufacturing sentiment

Our economists expect June eurozone PMI manufacturing to rise to the 50 level, with any upside

surprise - which brings the forward-looking indicators into expansionary territory - being a positive for the euro and likely taking EUR/USD back above the 1.1300 level. While EUR/USD still trades modestly expensive based on our short-term financial fair value model, the mis-valuation has halved from the very stretched levels two weeks ago.

## 📉 GBP: Rising PMIs unlikely to affect sterling much

UK June PMIs should continue their gradual recovery after the Covid-19 induced slump. Despite this, forward-looking indicators should remain in contractionary territory. Given the volatility in PMI numbers, we don't rule out an upside surprise, but this is unlikely to have a long-lasting effect on sterling. The main GBP driver remains the outlook for UK-EU trade negotiations and we expect the lack of certainty and clarity to continue to weigh on GBP this summer.

## ➡ HUF: Cautious NBH on hold

Due to the extremely high level of uncertainty, we expect the National Bank of Hungary to keep rates unchanged today. We look for a downgrade to the economic outlook but not a material one, with the NBH still showing a strong belief in moderate growth in 2020. This means no excessive dovishness today, which could support the forint until the NBH adjusts to the harsh economic reality. Given the NBH's cautious stance, HUF should retain a muted sensitivity to risk appetite for now. Within the Central and Eastern European region, we expect HUF to outperform Polish zloty as the NBH lags the National Bank of Poland in its dovish approach (lower QE, no guidance of unease about the currency strength) while HUF offers a higher real rate.

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