

## FX Daily: Growth divergence and Fed can send EUR/USD below 1.150

We expect another leg lower in EUR/USD today, driven by an above-consensus 3.3% quarterly annualised US GDP, which should come in stark contrast with stagnant eurozone numbers. After that, we expect a broadly unchanged stance by an FOMC focused on defending its independence. In Canada, we could hear a slight dovish tilt in line with trade uncertainty



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### USD: GDP and Powell can add fuel to dollar rally

This week's strong USD performance has been driven by a combination of the US-EU deal, positioning adjustments, and month-end flows. These factors should start to fade now, shifting all the attention to data and the Fed. Before diving into the US calendar, it's worth noting that the positioning squeeze means the dollar is in a less oversold position and therefore faces more balanced risks.

Yesterday's US data was mixed. On the positive side, the US goods trade deficit narrowed sharply to \$86.0bn in June from \$96.4bn in May, driven by a 4.2% MoM drop in imports, while exports declined only 0.6%. Conference Board consumer confidence was also stronger than expected,

although the current conditions index deteriorated, led by job market concerns. That was confirmed by soft JOLTS numbers.

Today, expect the ADP jobs figures to attract some interest despite their poor predictive ability for official payrolls, but the biggest release is the advanced 2Q GDP report. The narrower June trade deficit reported yesterday underpins our economists' call for a 3.3% annualised growth, above the 2.5% consensus. Expect personal consumption figures to be in focus after the very soft 0.5% 1Q print. The latest consumer confidence figures are consistent with real consumer spending around 1-1.5%. The core PCE is the other major component to watch: it's expected at 2.3% QoQ.

Following these releases, the Fed will take centre stage. A hold is the consensus call and markets are pricing near-zero probability of a cut. As discussed in [our preview](#), we doubt the conditions for a dovish shift are in place, and we suspect market pricing for September (-16bp) may be challenged by a broadly unchanged stance by the FOMC. Chair Powell is likely to face questions regarding his position amid increased political pressure from President Trump to cut rates or step down. To date, Powell has provided no indication of a policy shift, and we expect a reaffirmation of the Fed's independence alongside his commitment to remain in office. This, combined with a stronger-than-expected GDP print, can add fuel to the dollar's good momentum.

*Francesco Pesole*

## 📉 EUR: Stagnant growth figures won't help

The euro has remained pressured across the board, being the worst-performing currency in G10 since the start of the week. The market's assessment of the EU-US deal is clearly a negative one from an EU perspective, as also demonstrated by NOK/SEK trading around 1% higher than Friday's close.

As discussed above, we expect another good session for the dollar thanks to US GDP strength and a firm Fed stance. 2Q GDP numbers are also published across the EU today. France reported stronger than expected, albeit mild, 0.3% QoQ growth earlier this morning. German numbers are expected at -0.1% QoQ – our call is -0.2% – and we agree with the consensus 0.0% QoQ for the eurozone as the positive export effect in 1Q is unwound. The ECB wage tracker and Spain's July flash CPI are also published today, but should have a limited market impact.

The stark divergence in growth news between the US and Europe should underpin EUR/USD bearish momentum in our view, and there is a good chance of a break below 1.150. That remains consistent with our long-standing call for a EUR/USD weakening in 3Q followed by a recovery to 1.18 in 4Q.

*Francesco Pesole*

## 📉 CAD: Dovish risks today

The Canadian dollar has dropped less than other G10 currencies during this round of USD appreciation. For the moment, domestic factors aren't playing much of a role, and markets remain quite conservative on Bank of Canada rate cuts, pricing in only 15bp by year-end. As the BoC announces policy today, the chances of a cut appear quite low – as discussed in our [preview](#) – but the risks in our view are tilted to the dovish side. The BoC Business Outlook shows limited pass-through from tariffs to Canadian consumers but signs of slower hiring, investment and consumer

demand.

Then, there is the crucial point of US-Canada trade negotiations. From what has been reported, both Canadian and US officials think progress has been lacklustre. And while we know that the market's baseline expectation is that trade deals will ultimately be agreed, the EU experience (and its spillover into EUR/USD) suggests the conditions of those deals aren't secondary for the FX impact.

Given how conservative BoC pricing is and economic/trade risks, we expect today's BoC meeting to generate some dovish repricing and add pressure on CAD. We continue to target 1.39 this quarter for USD/CAD.

*Francesco Pesole*

## ➔ CEE: Weaker euro exposing regional vulnerabilities

Local developments were quiet during the first half of the week but very busy in markets. Today, we should see the first macro numbers in CEE this week. This morning, GDP numbers in Hungary for 2Q were released showing a slight increase of 0.4% QoQ and an improvement from the decline in Q1 (-0.2%). Later today, we will also see numbers in the Czech Republic. We expect a 0.4% QoQ increase in line with market and CNB expectations but the range of estimates is 0.2-0.5% QoQ. The first estimates do not show much detail in CEE but should at least show us how resilient the economies are to the US trade story.

CEE markets were catching up with the sell-off in EUR yesterday. EUR/HUF saw the biggest one-day move since April and EUR/PLN since early June. While EUR/HUF only returned to mid-July levels, the EUR/PLN story seems more interesting. We've seen PLN as overvalued here since the July NBP rate cut and yesterday we could see essentially full closure of that gap vs rate pricing. With levels above 4.280, EUR/PLN has thus returned to early June levels and also our target which we discussed previously here. For now, there is probably little room for further PLN weakness. On the other hand, Thursday's inflation shows a dovish risk in our view, which could open more room for EUR/PLN upside. Thus, we remain bearish on PLN, but most of the space has already been used in our view.

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