FX Daily: How big is the FOMC dovish front?

Today's June Fed minutes will answer this question. Unless something remarkable emerges, the tariff story itself seems unable to significantly steer the dollar for now, as markets retain a sanguine approach to trade headlines. Elsewhere, the Reserve Bank of New Zealand kept rates on hold but reiterated a preference to cut later this year

Until we receive some key data input, the dollar may not deviate too far from current levels

USD: Still little affected by tariff news

The FX market continues to approach tariff headlines with caution, broadly subscribing to the view that Trump is using the upcoming deadlines as leverage for trade negotiations but is unlikely to maintain elevated reciprocal tariffs for long. The dollar has struggled to find clear direction as a result, with the Fed narrative remaining the dominant driver for FX. While tariff decisions have influenced – and will continue to influence – the Fed, markets are now more focused on incoming data, given the volatility and unpredictability of US trade policy.

Until we receive some key data input – namely next Tuesday's CPI – the dollar may not deviate too far from current levels. That is unless markets find anything remarkable in the June FOMC minutes released this evening. The consensus expectation is probably that two members, Bowman and Waller, will have flagged their dissent at the meeting before delivering dovish comments to the media a few days later. But if the minutes show a greater dovish front, then the dollar could take a hit as the bar for data to justify a summer cut would be lower.

Barring any major surprises, we think tariff developments (Trump is set to announce trade updates on at least seven countries today) are more likely to drive relative performance among currencies with similar risk exposure but differing sensitivity to US tariffs, rather than materially shifting the dollar itself. This dynamic is particularly evident in Asia. The yen, for example, remains under pressure from Trump's trade rhetoric towards Japan – and the consequences for public finances ahead of the upcoming election. Instead, the Philippine peso could benefit from flows diverted away from other Asian markets affected by higher reciprocal tariffs, as discussed in this note. The spike in copper prices overnight can also leave longer-lasting effects on copper-exporting countries.

Francesco Pesole

EUR: EU waiting on Trump's trade letter

EUR/USD might have found a short-term anchor at 1.17. Despite the post-NFP hawkish repricing in the USD OIS curve, the two-year swap rate gap remains 15-20bp wider than a month ago. This means that while some USD risk premium remains present at around 1.170, the dollar isn't as screamingly cheap as it was in early June.

The eurozone data calendar isn't particularly busy this week, and the focus should be primarily on some ECB speakers. Today, we'll hear from Lane, Guindos and Nagel. Given the return of tariff threats to the EU, the risks are skewed to some slightly more dovish comments in the coming days, although, like markets, the Governing Council may tread very carefully when guessing Trump's ultimate trade plan.

The US President said yesterday that a letter to the EU outlining the new tariff rate was "two days off". We could see the EUR face some pressure on the crosses on the announcement, but the conclusions for EUR/USD are not that straightforwardly negative. Tariffs on the EU would mark an important escalation that can also harm the dollar, offsetting the hit on the euro. Anyway, the market's baseline will probably remain that a EU-US deal should be agreed by the 1 August deadline, and EUR/USD may not drift far from the 1.16-1.18 area unless US data surprise in either direction.

Francesco Pesole

NZD: RBNZ holds rates, upcoming data key

The Kiwi dollar fluctuated after the RBNZ held overnight, and is now back at yesterday's 0.600 close. Bets on a rate cut were close to zero, and there isn't anything particularly surprising in the RBNZ statement. Policymakers are still generally minded to cut rates again, but conditionality is now much higher given inflation concerns and swings in global trade news.

Short-term NZD swap rates initially jumped some 5bp on the announcement but then retreated as markets continued to see a strong case for another rate cut by the end of the year. We tend to agree, but admit that pricing can shift quite abruptly as the infrequently released inflation (2Q

July) and jobs (5 August) data for the second quarter come due.

Like AUD – which incidentally got a lift from an RBA surprise hold this week – the Kiwi dollar is less exposed than most other G10 currencies to US tariffs, both directly (only 10% 'Liberation Day' tariff rate) and thanks to China having secured a deal that shields it from this round of protectionism threats. We see some downside risks for NZD/USD and target levels close to 0.590 later in the summer mostly due to expectations of higher inflation in the US and a hawkish Fed repricing.

Francesco Pesole

CEE: Rate cuts out of sight

Yesterday's inflation in Hungary showed an increase from 4.4% to 4.6%, close to our estimates. Core inflation also showed some decline as expected. Although we are not seeing an upside surprise for the first time in a while, which is good news, we still see inflation as a problem for the central bank and it will take more time to see some progress.

As we discussed in more detail yesterday, the upcoming inflation figures might be lower, but we can expect another rebound after the summer months. It is only next year that inflation may significantly decrease. Therefore, we believe that the National Bank of Hungary will leave rates unchanged this year. There was little market reaction to yesterday's numbers, but core rates pushed the entire CEE region higher, with HUF rates under the most pressure. Despite this, the FX rally has run its course in recent weeks, and we consider 400 EUR/HUF to be a fair level for now, unless there is a more noticeable spike in HUF rates in the coming days.

As expected, the National Bank of Romania left rates unchanged at 6.50%. Perhaps more interesting is the bank's statement commenting on the government's recently unveiled fiscal package. The central bank sees a short-term impact on inflation, pushing the numbers "well above" the NBR's forecast, but in the long run, the consolidation should contribute to a lower current account deficit and lower inflation. While it is almost certain that we will not see rate cuts this year, it is clear that the central bank will want to wait to see the impact of the government's measures this year before considering any action in future.

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