

## FX Daily: Look at the decimals

Our call is for a consensus 0.2% MoM core CPI in the US today. But markets should react to the decimal places before rounding, and the distribution of economists' estimates suggests expectations may be slightly skewed towards a higher number. The dollar can keep trimming gains – although a rally in EUR and GBP shouldn't have long legs, in our view



We have published the July edition of [FX Talking "Tight defence, star performers"](#), which includes our latest calls for developed and emerging market currencies.

### ⬇️ USD: Dovish bias can hit the dollar

Risk sentiment has improved into today's US June CPI report, perhaps as markets expect the figures to keep the Federal Reserve on track for a September rate cut, which is 20bp priced in. As usual, the market-moving sub-index will be the month-on-month CPI excluding food and energy, which we forecast at 0.2% in line with consensus. The distribution of economists' estimates has a fatter right-end tail, meaning actual expectations are closer to 0.24% than 0.15% (both would be

rounded to 0.2%). In year-on-year terms, the consensus number is 3.4% for core inflation, and headline CPI is expected to slow further from 3.3% to 3.1% YoY.

We have a slight bias for a weaker dollar today given the market's recent dovish tendency despite inconclusive evidence for a September cut just yet. We suspect such bias is partly a consequence of Fed Chair Jerome Powell's tentatively dovish deviation from the latest FOMC dot plot projections, which includes only one cut in 2024.

We'll be watching the jobless claims report quite closely too. The dollar index has weakened after five of the past six weekly jobless claims prints, with the recent rise in continuing claims to late 2021 levels adding to those two-way risks that Powell recently reiterated in his testimony.

We still believe the euro is not the cleanest way to play a USD decline at this stage given lingering idiosyncratic risks in the eurozone, so the euro-heavy DXY index may not show the full extent of a softening of the dollar that should primarily benefit high-beta currencies. Still, risks for DXY appear skewed to 104.50 in the very short term.

*Francesco Pesole*

## EUR: Enjoy the silence

The euro is enjoying some "silence" on French politics, which is making investors comfortable so far with EUR/USD drifting slightly higher from the 1.0800-1.0830 anchor. If you read French news, you would get anything but a sense of silence, but global markets inherently filter out noise to prioritise major developments, and so far there have been none on coalition talks.

President Emmanuel Macron joined the NATO meeting leaving French parties from the left working on a strategy to secure key government seats. Ultimately, Macron will have the final say. Interestingly, the option of a deal between Macron's party and the moderate right-wing Republicans is gaining some momentum. Former prime minister Edouard Philippe (who is part of Macron's alliance) is attempting to broker the deal. This would, however, only guarantee a relative majority.

The OAT-Bund 10-year spread has been stabilising around 65bp, and while we continue to see a risk of rewidening as markets may grow impatient with the political gridlock, the rest of this week should see a shift of focus towards US macro developments. As discussed above, the dollar may soften today and EUR/USD could eye 1.0900. The eurozone calendar is empty.

*Francesco Pesole*

## GBP: Doing well on and off the pitch

If England reaching the Euro 2024 final wasn't enough positive news, the UK posted stronger than expected growth numbers for May this morning. The monthly GDP indicator rose 0.4% MoM, doubling expectations and showing a healthy rebound from April's 0.0%.

The impact on the pound from GDP data was muted, but GBP remains the best performing G10 currency this week, largely on the back of some hawkish narrative from Bank of England speakers following a quiet period around the election. We were not surprised to hear the two most hawkish MPC members, Jonathan Haskel and Catherine Mann, sound the alarm on risks of easing too early – but Chief Economist Huw Pill's comments did matter to a greater extent, as he is a more

accurate benchmark for consensus within the committee. Pill's comments yesterday mostly stressed the persistence and upside risks in services inflation, shedding light on greater doubts about an August cut.

The market's dovish bets have been trimmed, with now only 14bp priced in for the 1st August BoE meeting, and 47bp in total for the year. Following the latest hawkish BoE commentary, it will take some convincing developments in UK prices to convince markets an August cut is possible. That remains our base case anyway, so we believe that GBP strength will be short-lived. For now, EUR/GBP bulls like us will be happy with the pair not slipping below June's 0.8400 lows.

*Francesco Pesole*

## 📉 CZK: Surprisingly low inflation puts 50bp rate cut back on the table, but FX is against it

Yesterday's inflation figures in the Czech Republic brought a [surprise](#) once again, but this time to the downside. While we highlighted the downside risk before print, the result exceeded all expectations. Inflation fell from 2.6% to 2.0% YoY, back to the central bank's target, while core inflation fell from 2.5% to 2.2% – both well below the central bank's expectations.

It seems that the August meeting will gain a lot of market attention. Market pricing has moved significantly to the side of a 50bp rate cut for the next meeting, and the rest of the curve rallied as well. EUR/CZK followed with no surprises in another move up and for the moment has traded above 25.400, reaching new highs. This firstly puts FX above the Czech National Bank's forecast (25.20 on average for the second quarter) and secondly shows EUR/CZK sensitivity to the rate differential, which has been extremely high in recent weeks. Any dovish signal from CNB will lead to further weakness in the CZK.

Our economists are currently unchanged in their preference for a 25bp rate cut for the August meeting, but it is FX that is likely to be key to the final central bank decision. But just given the already weak CZK and sensitivity, we agree with a more cautious approach here. CNB board members are likely to publish their first comments as early as next week ahead of the blackout period and the August meeting. If our reading of the CNB's view on FX is correct, we will see cautious comments and a preference for less cutting despite the surprise in inflation. On the other hand, we already know that the CNB can surprise and is probably the most difficult central bank to read in the region at the moment.

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