FX Daily: Looking through Trump's comments

Despite President Trump's latest complaints about high interest rates, we think expectations of imminent Fed easing remain unrealistic

US President Donald Trump and Federal Reserve Chairman Jerome Powell

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USD: Looking through Trump's comments

The US dollar declined yesterday following President Trump's comments protesting against high Fed interest rates. We don't expect these dollar losses to last as the Fed retains its wait-and-see, data dependent approach. Indeed, this was stressed by Chair Jerome Powell yesterday, noting that policy setting entirely depends on incoming economic information. This means that any expectation of an imminent Fed easing remains unrealistic and we need to see bouts of soft US data before the market can again start pricing in cuts and the US– Rest of the World interest rate differential erodes. Also, for the US rate spread to fall more dramatically, the US slowdown would have to occur in isolation - whereby markets would not price in easing /lower rates elsewhere. On the US data front today, the focus is on the housing data (building permits and housing starts). These are unlikely to point to a dramatic US slowdown.

EUR: Narrow ranges, low volatility trading to persist

EUR/USD got a modest boost from Trump's comments on interest rates yesterday. Still the pair did

not test the 1.1100 resistance level. We expect EUR/USD to stay in a narrow range today (not breaching the 1.1100 level) given the lack of data points and depressed / persistently falling implied volatility.

GBP: The first Johnson-Corbyn televised debate

Sterling continues to tick higher as the pre-election polls show a widening Conservative party majority. Today, the main focus is on the first Johnson-Corbyn televised debate. While an expected debate victory by the former would be GBP positive (in line with the recent trend), EUR/GBP 0.8500 is likely to act as firm support for the cross for now.

HUF: No change in the NBH stance

There should be no surprise from the National Bank of Hungary today. Both rates and guidance should remain unchanged. Inflation data has been more or less in line with the baseline of the latest central bank forecast. Despite the uptick already seen in CPI, which should continue until year-end, the NBH sees inflation risks tilted to the downside. We see the prospects for the Hungarian forint as the weakest in the central and eastern European FX space. Funding costs are low and there is no longer a current account surplus yet the monetary policy stance is loose, which should keep HUF under pressure, leading to underperformance vs its CEE peers. We target EUR/HUF 340 in coming months.