

FX Daily: Market shrugs off new tariff levels

Financial markets have reacted to news of higher US tariffs in sanguine fashion. Equity markets have recovered most of their initial losses, bond markets have barely budged and in FX, Asian currencies have bounced back. Presumably, the view is now that there are more deals to be done before the 1 August deadline. Macro not tariffs looks set to drive FX



White House Press Secretary Karoline Leavitt showcases President Trump's tariff letter to Japan

➔ USD: Investors more relaxed on tariffs

News that Washington is [serving up letters](#) of higher tariff rates to trading partners has been met with a guarded reaction in financial markets. US equity futures initially came off around 0.8%, but have mostly reclaimed those losses. And key Asian bourses such as those in Japan and South Korea are actually trading higher. The market seems to be taking the view that nothing is final and that these letters merely mark another iteration on the journey towards a trade deal. Taking Japan for example. Prime Minister Ishiba is fighting a crucial Upper House election on 20 July and does not want to be seen to be rolling over and accepting more US rice imports. That position could potentially change after the election.

That US equity markets can seemingly cope with this ongoing trade uncertainty is good news for risk assets and suggests that current interest in international equities and emerging markets continues. For FX, it appears that investors are more likely to trade based on the broader economic impact of these measures rather than the measures themselves. For example, do these higher tariffs hurt business confidence even more, hit profits and result in lay-offs? Or is the dominant theme a stable labour market, businesses able to pass on costs and higher inflation? This latter position is our slight preference for the third quarter in the US, which could trigger a modest dollar rebound. For reference, the five-year five-year US inflation swap is creeping back up to its highs near 2.55/2.60% and will keep the majority of the Fed vigilant on inflation.

Also on the subject of macro, the Reserve Bank of Australia surprised today by leaving the cash rate on hold at 3.85%. Inflation was a little stickier than it would have liked, and the labour market remains tight. AUD/USD had a good rally and short-dated yields rose 15bp. Again, we think the macro story will be more important for FX.

For today, the US macro data is the NFIB Small Business Optimism Index. This is loitering halfway between the euphoria of President Trump's re-election and the desolation of tariffs, and is probably consistent with the narrative of weak growth in the US economy of around 1%.

DXY is consolidating above 96.50 and further consolidation within a broad 96.50-98.00 range looks likely. The next big macro input here should be the June CPI release, which is expected to show the start of rising price pressures.

Chris Turner

EUR: Reasons to be cheerful

Reports suggest that the EU might be able to secure a decent trade deal with the US after all. The EU's negotiating leverage of a community of 450 million consumers is leading to reports that the baseline 10% US tariff on EU imports can be maintained, while there might be some better carve-outs for the aircraft or drinks industries. Obviously, there are still big challenges with auto tariffs at 25%, and one of the biggest shoes to drop is what happens in the pharma sector. Let's see.

EUR/USD initially came lower on the news of tariff letters yesterday – probably on the view that an equity sell-off was going to cause de-leveraging of short dollar positions. But in the end, the fallout on equities has not been severe at all, and investors are probably happy to sit there slightly long EUR/USD.

One story that has caught our eye this morning is a new EU issuance coming to the market today – potentially looking for EUR10bn in seven and 20-year debt. This will be one of four syndicated issuances in the second half. In our piece [identifying how the euro could take advantage of dollar disillusionment](#), joint EU debt was very important. Today then we could see some strong headlines in terms of demand or pricing levels for this joint EU offering. And perhaps in quiet summer markets, we could even see some direct impact on EUR/USD if a lot of foreign demand for EU debt goes through to settle this transaction.

EUR/USD consolidation in a 1.1710-1.1830 range looks likely near term. Elsewhere, we've published a [short update on EUR/CHF today](#), which looks to stay offered for the rest of the year.

Chris Turner

→ CEE: No discussion about rate cuts

Hungarian inflation for June will be published this morning. Our economists are expecting a slight pick-up in the headline number from 4.4% to 4.5%, in line with the new National Bank of Hungary forecast and a tenth below market expectations. Inflation in Poland and the Czech Republic did not show any major surprises in June and the numbers in Romania will be released on Friday. Still, Hungary's numbers are a bit different thanks to the government's recently imposed price measures, pulling down headline inflation by 1.2-1.3pp. The June number could see a new reduction in the prices of medicines and some other goods. On the other hand, fuel and food should rise slightly similar to other countries. Core inflation, however, should fall further. For the NBH, despite some volatility in the numbers, the summer prints should not be too significant and the key will be the pick-up in inflation in the fall. Therefore, we still do not expect any rate cuts this year as a baseline.

This is close to market pricing where we still see one rate cut priced in, but after a significant hawkish shift. This, along with a weaker US dollar and risk-on sentiment, has been the driver behind the current HUF rally, which we believe is over. EUR/HUF has been rejected several times at 398.5 and yesterday, under risk-off sentiment, returned up near 400. This was our target before and the reasons against another HUF rally were discussed here last week despite the market's bullish view and likely strong long positioning, following carry and hope in a low vol summer.

Frantisek Taborsky

↓ RON: National Bank of Romania to leave rates unchanged

The National Bank of Romania is likely to leave [rates unchanged](#) at 6.50% today in line with expectations. Although the central bank's decision should be a non-event, market attention will be on comments regarding the inflation outlook and fiscal situation. The latest inflation numbers show some upward pressure while fiscal consolidation indicates the need to raise some taxes including VAT and excise, raising inflation further.

On the fiscal side, although FX and bonds have seen some rally after positive headlines, markets seem to have exhausted themselves a bit and the overall story is taking longer than expected. In the second half of June, EUR/RON moved from lows of 5.020 to highs of 5.085 and has since moved rather closer to the upper boundary. Clearly, EUR/RON now has more freedom than in the past and the deep current account deficit is weighing on the currency. At the same time, the fiscal story is taking too long and those who had positions in bonds or FX are taking profits, avoiding the risk of any change in direction. It is hard to read the next direction in FX but we expect the upper end of the EUR/RON mentioned range to be tested.

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