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FX

FX Daily: New ceasefire, still many open questions

The ceasefire extension in Iran is helping markets trade optimistically again, but we ultimately need to see a reopening of the Strait of Hormuz to take the dollar much lower from here. Alongside new headlines from the Gulf, keep an eye on a potentially hotter-than-expected German CPI print today



A tentative extension of the ceasefire – still subject to US President Donald Trump's approval – has seen the dollar fall across the board

↓ USD: Chasing the next headline

The US and Iran have reportedly agreed to a tentative 60-day extension of the ceasefire, which is awaiting US President Donald Trump's approval. That has offered investors some relief after yesterday morning's fears that new military skirmishes could have led to a broader re-escalation. The question now is whether the Strait of Hormuz will reopen soon or the extended ceasefire will only lead to another prolonged stalemate.

The dollar fell across the board after yesterday's headlines, but DXY is still trading a non-trivial 1% above the early-May levels. That's despite Brent now trading 4% below the 7 May bottom. It's hard to guess whether this is indeed the decisive moment for a Middle East resolution, but what we have to acknowledge is that the dollar is in a stronger spot regardless. The reasons

are again to be found in a hawkish Fed tone and inflation data keeping markets betting on tightening (15bp by year-end) despite lower energy prices.

Yesterday's marginally sub-consensus core PCE (0.2% month-on-month) didn't particularly dent Fed pricing, perhaps suggesting markets want to see the next CPI report before erasing hike bets. Today, the US data calendar is light, but there are plenty of Fed speakers to keep an eye on.

The dollar remains entirely headline-driven. Strong indications that the Strait of Hormuz has started to reopen for traffic can still send USD materially lower across the board, but equally, a prolonged stall can bring DXY back to 99.50 even without a military re-escalation.

Francesco Pesole

↑ **EUR: German inflation may surprise on the upside**

France, Spain and Germany publish flash May CPI releases this morning. Inflation in France and Spain is expected to accelerate further, while Germany's is seen stalling at 2.9%. But our macro team sees upside risks to the key German print, with a risk of a reading well above 3.0%. That would likely offer some support to the euro by countering the move lower in short-term rates.

That said, Middle East developments remain the dominant driver for EUR/USD. In our view, a reopening of the Strait of Hormuz could trigger a 1%+ relief rally. Sustaining levels above 1.180, however, may also require a more favourable short-term rate differential, primarily through a dovish repricing of the Fed.

Francesco Pesole

↑ **CAD: Rate differentials are weighing**

Canada releases first-quarter GDP data today. Expectations are for tepid 1.5% quarter-on-quarter annualised growth after the fourth quarter's grim -0.6% print. But such an outdated piece of information will only matter for the Bank of Canada if it very meaningfully deviates from consensus.

The Canadian dollar took a breather today, but remains a key laggard in the G10 in May. In our short-term fair value model, global equities and short-term rate differentials are doing the heavy lifting in driving the pair. Further de-escalation and improved risk sentiment would likely push USD/CAD lower, but relative rates continue to provide an important offset. Canadian inflation and labour market dynamics argue against any near-term hawkish shift from the BoC, and markets remain more comfortable pricing out BoC tightening than Fed tightening.

USMCA renegotiations also remain a key risk for CAD. US Trade Representative Jamieson Greer said this week that issues with Canada are "significant". As in 2020, Trump may escalate tariff

threats ahead of any eventual deal. And even if a new agreement is ultimately reached, prolonged negotiation uncertainty could weigh on Canadian business sentiment and the labour market, further reducing the likelihood of a BoC hawkish response.

In our baseline scenario – which is rather optimistic on Middle East developments – we have USD/CAD trading back to 1.37 by the end of June and 1.36 by the end of the third quarter. That embeds some risk premium on CAD related to USMCA renegotiations, keeping the loonie a laggard relative to other G10 commodity currencies.

Francesco Pesole

➔ CEE: Polish inflation tests central bank's patience

Poland will release its May flash inflation figures today. As always, this is a good indicator for the entire region, where we should see further detail on the impact of the US-Iran conflict and what lies ahead for CEE regarding inflation. We expect an increase from 3.2% to 3.7% year-on-year, above market expectations, driven by a low base of comparison in fuels and core inflation from May 2025.

Gasoline prices continued to rise month-on-month despite lower taxes and a price cap, on top of increasing wholesale prices, while core inflation momentum was higher than in the same period of 2025. 3.7% headline inflation would mark the highest level since June last year and would also be above the National Bank of Poland's tolerance band for the first time since then.

In the Czech Republic, we will be watching the final GDP numbers for the first quarter. Surprisingly, these were significantly low in the flash estimate, indicating some economic slowdown before the full impact of the US-Iran conflict. That makes decision-making for the Czech National Bank more difficult. Typically, the last few GDP numbers have seen some upward revisions from the flash numbers, which is also the CNB's expectation here.

After the end of trading today in Hungary, rating agency S&P will publish a rating review. Hungary holds BBB- with a negative outlook. It is probably too early to see an improvement in the outlook. The agency's comments may provide a new perspective following the general election, especially in the context of the current negotiations on access to EU funds, where Prime Minister Péter Magyar expects to "finalise open questions" on EU funds today in Brussels.

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