

FX Daily: Calm before tomorrow's storm

It should be a fairly calm day in FX markets today, ahead of the May US CPI and the ECB meeting tomorrow. EUR/USD is unlikely to deviate much from the 1.2200 level today. In Poland, the NBP meets today but it is unlikely to react just yet. Rising Hungarian May CPI is to cement the June NBH rate hike and be supportive of HUF near-term.



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➔ USD: Calm day ahead

We look for a fairly calm day in FX markets today, ahead of the May US CPI and the ECB meeting tomorrow. The G10 dollar crosses should remain largely rebound, with a calm day and the related stability on the margin favouring more cyclical FX. While on the CPI side all the focus will be on the US prices tomorrow, the [China May PPI data](#) overnight underlined the clear global trend of building prices

Elsewhere, the Bank of Canada rate announcement this afternoon (here is [our preview](#)) does not appear to have a strong surprise potential for markets. Stronger CPI and fast vaccine roll-out in Canada have offset the shaky jobs market performance and allowed the BoC to keep its policy message unchanged today whilst remaining on track to taper again in July. We expect the impact of today's meeting to be either neutral or mildly positive for CAD.

➔ EUR: Rangebound EUR/USD, the focus is on Hungarian CPI

We don't look for much price action in EUR/USD today, with calm likely prevailing ahead of the ECB meeting tomorrow. EUR/USD is unlikely to deviate much from the 1.2200 level today. The same should be the case for other European FX.

In Hungary, headline and core May CPI readings are set to increase further, with headline inflation pushing to 5.4% (vs 3% target). After the big impact of the base effects stemming from food and oil prices, the economic reopening should start now to affect local prices too. The meaningfully above-target CPI should cement the expectation of a NBH hike later this month. With the NBH signaling policy normalisation ahead, the impact of high CPI on HUF should be mild today.

➔ GBP: calm day for sterling ahead

Concerns about possible trade tensions between the EU and the UK had a fairly limited impact on sterling, with EUR/GBP stuck around the 0.8600 level - just modestly above its short-term value (by around 0.5%). Limited data points today and the market being fully focused on the ECB and US May CPI tomorrow suggest subdued price action in both EUR/GBP and GBP/USD today.

➔ PLN: A start to policy normalization is unlikely just yet

In Poland, the MPC meets today but despite the pronounced price pressures, any start of policy normalisation is unlikely just yet. More likely the central bank will wait for the new set of projections in the July meeting before acting (see [NBP Preview](#)). We look for the start of the tightening cycle next quarter, with the initial hike being 15bp. With the NBP moving from its ultra-dovish bias and set to embark on rate hikes and QE tapering in 2H, this is positive for PLN, particularly when the mortgage story has not been as detrimental for local banks as many have feared while, unlike HUF, the zloty benefits from a current account surplus.

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