FX Daily: No news is good news

Cross-market volatility continues to fall as investors seem to be positioning for benign US inflation data later this week. This risk-positive environment has seen the dollar drift a little lower but the Japanese yen staying weak too. Expect more of the same today, with the focus on US consumer confidence and eurozone inflation expectations

USD: High rates aren't helping

In spite of short-dated US rates remaining reasonably firm, the dollar is edging lower. Driving this trend looks to be the dominant current theme of lower cross-market volatility and the search for risk. Here, sharply lower US interest volatility has dragged down volatility across the equity and FX spaces too. At the heart of this story are investors positioning once again for a soft US landing. Central to this will be Friday's release of the core PCE inflation data for April. Having taken inputs from the already released April CPI and PPI figures, consensus now expects Friday's figure to come in at a benign 0.2% month-on-month. Such an outcome can rebuild expectations for a September Federal Reserve rate cut (now priced with a 44% probability) and prove bearish for the dollar.

In terms of today's US calendar, we will see March house price data and May consumer confidence. The latter is important in that consumer confidence has been edging lower since

January, and the big question for US domestic demand is whether spending from the top 20% of households by income can continue to offset the struggles faced by the bottom 60%. ING's call is that higher rates will eventually take their toll on consumption and weigh on US growth through the year.

DXY is very close to some important support at 104.40, marking the lower boundary of this year's dollar rally. A break below there will warn that a speculative market long dollars may want to lighten positions ahead of Friday's big data release.

Chris Turner

EUR: Inflation expectations in focus

Ahead of next Thursday's European Central Bank policy rate meeting, this week sees two important pieces of eurozone data. The most important of these will be Friday's release of the core CPI figures for May. ING's team is slightly below consensus, looking for a core reading at 2.6% year-on-year – an outcome that should not materially impact expectations for the first 25bp cut of the cycle next week. Additionally, today sees the release of the ECB's survey of consumer inflation expectations for April. Some modest further improvement is expected in the one-year reading to 2.9% YoY (the lowest since September 2021), while the three-year reading is expected unchanged at 2.5% YoY. Any upside surprises here could prove a mild euro positive given the lack of conviction over what is next for ECB policy after next week's rate cut.

The EUR/USD range looks well set between 1.0800 and 1.0900. We suspect it can stay gently bid through the week, and we have a slight bias towards an upside break out should any of the US data finally point to some slowing US consumption.

Chris Turner

GBP: EUR/GBP can climb from these levels

If EUR/USD was shielded from the ECB's dovish comments yesterday by a softening USD, the common currency suffered in some crosses like EUR/GBP. An upbeat risk sentiment can put some pressure on EUR/GBP (as the pound has a higher beta) in the near term, but the key driver of the pair is monetary policy divergence between ECB and the Bank of England. Here, we see good potential for that policy story to turn favourable for a EUR/GBP rally.

After printing below 0.8500, it appears that EUR/GBP was lacking enough bearish momentum yesterday – possibly also due to thinner liquidity – but we also suspect the FX market may not want to chase the pair too low given an increasingly split BoE MPC in spite of volatile inflation and wages data. Our view is that economic data next month will prove supportive of a rate cut in August.

This week's UK calendar is rather quiet. There will be some interest in any campaign pledges by Labour Party leader Keir Starmer (who leads in the polls by a wide margin). He kicked off the campaign with a speech yesterday which has, however, had little market resonance. Risk premium on EUR/GBP related to UK politics remains absent for now.

Francesco Pesole

CEE: Global conditions and sell-off in local market rates points to further gains

This week, we have a rather light calendar in the CEE region, which will draw more attention at the end of the week. Yesterday, we saw labour market numbers from Poland posting a larger-than-expected decrease in unemployment. On Thursday, we will see the unemployment rate in Romania. On Friday, Turkey will release its first quarter GDP numbers, which should be strong in real terms at 5.7% YoY, but still below market expectations. The second estimate of first quarter GDP will also be released in the Czech Republic. Here, we expect a confirmation of 0.4% YoY. However, the highlight of this week will be Wednesday's May inflation data in Poland. We expect an increase from 2.4% to 2.8% YoY, in line with market expectations and continuing the upward trend. A further upswing in price dynamics was, in our view, mainly driven by annual increases in food and fuel prices.

In the FX market, conditions for EM currencies remain favourable, with continued risk-on sentiment and a weaker US dollar. Additionally, the CEE region is adding to support of the local FX market with the sell-off in the rates market in the second half of last week. Despite the fact that we still see most of the region's currencies overvalued on a short-term basis, the coming days will likely support further CEE FX gains across the board. Our preference remains unchanged, with PLN as our favourite currency in the region. Despite impressive gains in recent weeks, this is where the rates market points to further support below 4.260 for EUR/PLN.

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