

## FX Daily: Powell press conference to keep dollar gains in check

It's a big day for market-moving US events. We get to see the release of the May CPI figures and also later in the day will receive a new FOMC statement and new Fed economic projections. We will also hear from Fed Chair Jerome Powell. He's typically adopted quite a dovish tone at these FOMC press conferences and he could again send the dollar lower



### ⬇️ USD: The dollar could end up lower on the day

A little calm seems to have returned to French government bond markets, where 10-year yields ended yesterday some 10bp off the intra-day highs. We do not think we've seen the last of the stress here, but for today the attention switches squarely to the US. The first big release of the day is the May CPI data, where there is a firm consensus around a 0.3% month-on-month core CPI reading. That is not good enough for the Federal Reserve's 2% inflation target, but not bad enough to pare back expectations for Fed easing any further. Looking at the consensus figures, if there is a risk to today's core CPI number it is to the downside - to 0.2% month-on-month. Perhaps some economists expect Owners' Equivalent Rent - the intangible component with a 40% weight in the core CPI basket - to finally come lower.

After the excitement of the May CPI release, investor attention turns to the Fed meeting. Please see our Fed preview [here](#). There will be much focus on the dot plots, which are expected to show two instead of three Fed cuts this year. The market prices less than two cuts already this year - meaning that the dollar should not have to rally too far. Regarding the other projections, we see a slight downward revision to GDP forecasts and upward revisions to core PCE inflation forecasts and unemployment. We may be wrong, but we do not see the economic projections being a big market mover today - unless the median dot plot drops to just one Fed rate cut this year.

What could move the markets are two things. Should the Fed remove the sentence 'In recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective' from its statement, short-dated US yields and the dollar could drop. Equally, Chair Powell typically delivers a dovish press conference and the dollar has ended lower on the day over the last four consecutive FOMC meetings. The same could happen today.

Should some of the above come to pass, we can see DXY dipping back to 104.95, which would fill the gap left by Monday's jump higher on the European political news. However, DXY would need to break and close below 104.95 to reverse what seems a mildly positive near-term story. On the upside, we suspect we would have to see some shock 0.4% MoM core CPI number or a more hawkish Powell to get DXY anywhere near the 105.90/106.00 area. We see that as unlikely.

*Chris Turner*

## ➔ EUR: Time for some consolidation?

Yesterday we [published an article](#) looking at how European asset markets could perform ahead of the first round of French parliamentary elections on 30 June. Yesterday, the French-German 10-year sovereign spread did seem to turn from wide levels above 60bp. But we concluded that the risks - including a collision course between the European Commission's budgetary controls and a potential right-wing government - could keep investors nervous. In fact, current French Finance Minister, Bruno Le Maire, has been keen to warn of a Liz Truss-style debacle in French bond markets should Marine Le Pen's far-right party gain a majority in the elections. Expect markets now to take notice of opinion polls - where larger leads for Le Pen's party will be seen as a euro negative.

As discussed in the above article, we felt EUR/USD could drop another 1.5% should French political risk ramp up further - warning of an independent move towards the 1.06 area in EUR/USD this month.

Barring any new developments in France, we think EUR/USD could find some support from events in the US today. However, 1.0800 will now probably mark strong intra-day resistance. And should today's Fed event risk prove dovish and result in bullish steepening of the US yield curve, EUR/AUD could break decisively below support at 1.6200/6220. In other words, it seems clear that EUR/USD will not be the preferred vehicle to express a bearish view on the dollar.

*Chris Turner*

## ➔ CHF: A big couple of weeks for the Swiss franc

EUR/CHF has come lower on European political risk this week. As above, a ramping up of stress in the French bond market could probably knock another 1.0-1.5% off EUR/CHF too. However, over

the next couple of weeks, we see two important event risks for the Swiss franc. Next Thursday, the Swiss National Bank (SNB) will meet to set interest rates. The market is really split on whether the SNB follows up with another rate cut. Talking to Swiss customers a couple of weeks ago, most were sceptical that the SNB would cut again. Yet with EUR/CHF some 3% lower since then, the SNB may well be minded to cut after all.

The second event risk is the first quarter FX intervention data released on 28 June. We expect this to show the SNB buying FX for the first time in eight quarters. First resistance for EUR/CHF is at Monday's gap of 0.9677. And we could potentially see EUR/CHF now trading in something like a 0.9550-0.9675 range over the coming weeks.

*Chris Turner*

## Latam FX: Losing its shine

There has been no letup in the sell-off of Mexican assets. The focus this week has been speeches from current President AMLO and President-elect Sheinbaum that judicial reform is 'urgent'. This has spooked investors fearing that the current administration is looking to dismantle the institutional checks and balances on elected governments. The threat of these reforms looks likely to hang over Mexican asset markets all summer and the market has now completely priced out Banxico's chances of cutting interest rates. We suspect investors and corporates will use any strength in the Mexican peso to the 18.00 area against the dollar - best case 17.50 - to hedge against much weaker 20+ levels. This is especially so given the risk of a Donald Trump victory in November.

Elsewhere, headlines overnight out of Brazil may keep the real on the backfoot. Brazilian Finance Minister, Fernando Haddad, has tried and failed to get new measures through the Senate which would help Brazil meet its goal of a primary balanced budget this year. This is all pointing to downward revisions to Brazil's fiscal position in August and more pressure on the real. 5.50 looks like the direction of travel for USD/BRL now.

*Chris Turner*

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