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# FX Daily: Pre-emptive US election positioning

The dollar is trading higher since the weekend events that involved Donald Trump, in what appears to be a round of pre-emptive positioning as perceived chances of Trump's re-election rise. High-beta currencies are in a vulnerable position, and key CPI releases in Canada and New Zealand can further increase volatility in CAD and NZD

A stronger dollar appears to be driven by rising bets on a Trump presidency following last weekend's events

## USD: Trump effect lifts the dollar

Fed Chair Jerome Powell yesterday delivered the first real dovish remarks since the June FOMC. He refused to comment on the timing of cuts but explicitly acknowledged that the past three inflation prints have added to his confidence in returning to target, and continued to signal the jobs market is at an inflection point. We had been highlighting the risk of a dovish shift in Powell's and other members' narrative, and investors were already positioned for it. Ultimately, the dollar strengthened yesterday and overnight especially against high-beta currencies, while the more liquid EUR, GBP and JPY were more resilient.

A stronger dollar appears to be driven by rising bets on a Trump presidency following last weekend's events. The rise in long-dated Treasury yields is a symptom of that, as markets increasingly discount expansive fiscal policy expectations under a second Trump term. If markets continue to grow their Trump bets, there are higher chances of wide pre-emptive positioning in the months into November. This is a scenario where the election event would have a limited market impact if Trump indeed wins, but where the political factor should be felt more clearly via a more resilient dollar despite a softer US macro backdrop this summer.

Now that Powell has acknowledged some inflation optimism, June retail sales out today will offer clues on the activity picture. We have long discussed the material risks of a slowdown in consumer spending as high borrowing costs keep biting and Pandemic-era excess savings are depleted. Expectations are for a drop in the headline month-on-month series but a marginal advance in the ex-auto and gas gauge. The only Fed speaker on the agenda today is Adriana Kugler, who is a dovish-leaning member and could follow recent comments by Austan Goolsbee in signalling rate cuts in the coming months.

The US macro picture and recent dovish repricing in Fed expectations continue to argue against major USD rallies. However, if markets continue to price in a Trump re-election effect into bond and FX markets, the balance of risks is tilted to the upside in the near term for the greenback.

*Francesco Pesole*

## EUR: ZEW in focus today

Investors have remained immune to the lingering political risk in France, despite some worrying signals from State auditor Cour des Comptes, which said yesterday that the plans to fix public finances lacked credibility and relied on rather optimistic growth forecasts. In these conditions, the ongoing political gridlock is hardly good news, especially as socialist parties may well require higher public spending in some parts of the economy as part of a deal to form a working coalition with President Macron.

Today, the ZEW survey for Germany and the eurozone is expected to show some further loss of momentum in activity sentiment. That may ultimately contribute to avert a hawkish tilt by the ECB at this week's meeting despite some lingering inflation concerns. The ECB's Bank Lending Survey can also keep the ECB cautious on communication should it highlight the tightening effect of monetary policy on credit availability.

Eurozone-related factors have been playing second fiddle to the euro, and that has helped EUR/USD trade higher. But we think further rallies from the current levels should have short legs as the euro lacks a compelling idiosyncratic story and the dollar can find some benefit from rising bets on a Trump re-election.

*Francesco Pesole*

## Commodity currencies: Key inflation reads in Canada and NZ

It's been a bad start to the week for global commodity currencies, which were dampened by a Trump re-election risk premium and a general unwinding of carry trades. Domestic stories are key to offering some support to risk-sensitive currencies at this stage, and in the G10 space, inflation readings in Canada and New Zealand can have major FX implications.

The recent data flow in Canada again pointed towards some urgency to cut rates, as unemployment rose to 6.4% in June while hiring went into negative territory for the month. Still, for the Bank of Canada to cut next week, we may need to see inflation moving again lower after

May's above-consensus figures. This is exactly what markets are anticipating: headline CPI slowing from 2.9% to 2.7% YoY, the median core measure from 2.8% to 2.7% and the trim core measure from 2.9% to 2.8%. There are already 20bp in the price for a July cut, and we think an inflation slowdown in line with expectations can keep markets lean in favour of a move next week. We see downside risks for CAD on the back of that.

In New Zealand, the Reserve Bank of New Zealand (RBNZ) recently surprised with a dovish shift. One could speculate that policymakers took a peek at second-quarter inflation figures, which are released overnight. However, based on our estimates, we see upside risks to market expectations and the RBNZ's own projections for non-tradeable inflation, which is the key determinant for policy moving on. The consensus is for 0.8% quarter-on-quarter growth, while headline inflation is seen at 0.5% QoQ. In line with our estimates and given the recent underperformance of NZD after the RBNZ shift, we think the balance of risks for the Kiwi dollar is tilted to the upside in the next 24 hours.

*Francesco Pesole*

## CEE: FX ignores rates rally

Yesterday's final print of inflation in Poland brought no revision with 2.6% year-on-year, but we already expect a significant increase from the next print due to the change in energy measures to 4.4% as our current nowcast. On the other hand, current account numbers were poorer than expected in the Czech Republic and Poland yesterday. Only core inflation in Poland is on the calendar today, which is expected to drop a bit from 3.8% to 3.7% YoY, but we expect some improvement here in the second half of the year as well.

The whole Central and Eastern European region saw another wave of receiving in the rates market yesterday, most pronounced in the HUF market supported by dovish comments by the National Bank of Hungary (NBH) ahead of next week's meeting. Thus, local conditions for CEE FX deteriorated further. On the other hand, the global story still seems positive for FX here with risk-on mood. Trading is thus overall mixed in the CEE region and we are likely to see a similar story today. EUR/HUF quickly headed below 392, our level from yesterday, and for now we could stay at 391-392 until HUF connects with rates again, which would mean more significant weakness. However, this will rather depend on the NBH decision next week.

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