



Threats of a resumption of 50% tariff levels could briefly hit the benign risk environment, although with a market already positioned underweight the dollar, the dollar might not have too far to fall. And equally, last week's US macro data was mildly dollar supportive. Here, US yields have held onto their 10-12bp rise across the curve on the view that the Federal Reserve doesn't need to be rushed into a July rate cut after all.

Away from trade, it is a quiet week for US data and there may be some more focus on the Fed in light of the release of the minutes from the June FOMC meeting. There's also a focus on the energy market today, where the OPEC+ decision to increase supply more than expected should keep crude under pressure. Our team forecasts Brent dropping to \$60/bl later this year, which would be good news for global growth and good news for the energy importers in Asia and Europe.

DXY has found support around 96.50, and could be due some consolidation this week.

*Chris Turner*

## ➔ EUR: Vol could pick up

It would not be a complete surprise to hear the White House threatening the EU with broad 50% tariffs with a comment such as "there is nothing they can do to avoid these tariffs". Financial markets have learned, however, not to take these comments at face value and any EUR/USD dip on such a headline would likely meet buyers. As for the EU's negotiating position, reports suggest the bloc is split. Apparently Germany and countries within its auto supply chain network are looking for a quick deal to generate some certainty. On the other hand, France and Spain are said to prefer a tough negotiating stance and retaliatory measures. Reports of a two-month extension for a deal to be made seem quite credible, too.

In terms of sectors, the EU is also trying to negotiate down 50% tariffs on steel and aluminium, 25% on cars and avoid a big tariff on the pharma sector, which would hit Ireland particularly hard. News on Friday that the US is close to reaching a deal on pharma with Switzerland lifted healthcare stocks and could be a positive here.

It's hard to expect another big EUR/USD rally on this week's trade news. There is an outside risk to the 1.1900/1910 area if Washington did misjudge the mood and equities were marked heavily lower. But that seems unlikely. We tend to favour consolidation in a 1.1700-1.1830 range this week, although again we would avoid trying to pick a top in EUR/USD.

The eurozone data calendar is also light this week. In terms of political news, this Friday's passage in the German upper house of nearly EUR50bn in fiscal stimulus could be a reminder of the sea-change for domestic demand prospects in Europe – a multi-year EUR/USD positive.

*Chris Turner*

## ➔ GBP: Sterling slow to recover losses

EUR/GBP is staying relatively bid even as stress in the UK Gilt market abates. The fall-out from last week's U-turn on welfare reform is a broader understanding that taxes are going to have to go up in November. The weaker sterling story then switches from a sovereign risk premium story to a more conventional one of tighter fiscal and looser monetary policy.

Some slightly better UK monthly GDP data this Friday could generate some sterling support, but

we suspect 0.8600 now proves the near-term floor for EUR/GBP.

*Chris Turner*

## ➔ CEE: Region shielded by stronger euro against trade volatility

After a very busy week, the CEE region should calm down a bit. Today, some hard data will be published in the Czech Republic, Hungary and Romania. More interestingly, June inflation will be published in Hungary tomorrow. Our economists expect a slight increase from 4.4% to 4.5% year-on-year with 0.1% month-on-month, in line with the market and the National Bank of Hungary's expectations. Core inflation should fall again from 4.8% to 4.4%.

On Tuesday, the National Bank of Romania will meet, which should see rates left at 6.5% and be accompanied by a slightly hawkish rhetoric regarding the inflation outlook. On Thursday, Romania's final GDP figures for the first quarter will be published. We'll also see the final inflation figures for June in the Czech Republic, which will show us the full breakdown of the inflation increase from 2.4% to 2.9% YoY. On Friday, inflation and wages will be published in Romania. Headline inflation is expected to remain unchanged at 5.5%.

Last week, we saw an earthquake shake market expectations in Poland, and the zloty will remain in the spotlight this week. The dovish turn of the National Bank of Poland continues to drive the market, and market expectations have moved to 3.50% for the priced terminal rate. EUR/PLN lags significantly with the movement in rates, and this week we expect this gap to close. The rate differential points to levels around 4.280-290. It will, however, take some time to get there, in our opinion.

Elsewhere, we remain bullish on the Czech koruna, while we are neutral on the Hungarian forint, which we believe has rallied sufficiently for now. Of course, the focus will be mainly on the US trade story and Wednesday's deadlines. In general, however, CEE currencies should not be the main ones exposed and the shield from a stronger EUR should protect the region from a possible risk-off sentiment.

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