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## FX Daily: A slow start to a busy week

Most G10 currencies may see range-bound trading today ahead of a rather busy week, with US inflation and Jerome Powell's testimony in focus. We see some room for the bullish momentum on the dollar to continue to ease and reflationary trades to resume some interest, which might support activity currencies against low yielders this week



## USD: Shifting momentum?

Currencies are mostly range-bound in the first hours of trading, and a strong session in Asian equities (following Friday's global rally), for now at least, is not being matched by Western stock index futures, which largely point to a flat or slightly negative open.

Today, the calendar in developed markets looks rather dull, with no data releases set to move the market, and only one Fed speaker - Neel Kashkari - taking part in a townhall discussion. If catalysts for the market appear scarce today, they won't be over the course of this week. In the US, CPI data tomorrow will tell us whether we did indeed see the peak in inflation in May - our economists think we did, forecasting a slowdown in headline CPI from 5.0% to 4.8% in June, potentially putting a cap on Fed rate expectations for now. This may also be the aim of Fed Chair Jerome Powell as he delivers his semi-annual testimony to Congress on Wednesday and Thursday. The dollar, whose rally lost steam late last week, may see bullish bets continue to ease on the back of that and also as the market now appears less in a rush to unwind its reflationary trades.

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With most of the carry trades also having been unwound in the recent correction, highyielding/pro-cyclical currencies may find some support this week largely to the detriment of the low-yielding Japanese yen and Swiss franc.

## EUR: Lagarde hints at fresh guidance on 22 July

EUR/USD has moved to the upper-half of the 1.18-1.19 range as it remains, for the most part, moved by global factors and dollar dynamics. Over the weekend, European Central Bank President Christine Lagarde said that the forthcoming policy meeting on 22 July would deliver "some interesting variations and changes", hinting at new stimulus guidance and also suggesting new measures may be introduced next year to provide monetary support as the current round of QE ends. Markets have so far refused to read too much into what this may mean - therefore still failing to see any room for tapering discussions – and the EUR has remained unfussed. Let's see whether Luis de Guindos will add anything on this topic at a speech today.

For the rest of the week, we see a good probability of EUR/USD trading broadly rangebound, finding some support around the 1.1800 level. Recent spikes in Covid-19 cases in some parts of the eurozone are not worrying markets as countries like France have so far shown no intention to revert to strict containment measures.

# SBP: No impact from confirmation of new Covid-19 guidance in UK

Away from Wembley's unhappy night for England, the UK government is set to confirm new Covid-19 guidance coming into force on 19 July today. Despite the recent rise in cases, Prime Minister Boris Johnson should confirm most restrictions will be lifted from next week. This is fully priced in by the markets, and should have little impact on sterling, which may, instead, be mostly moved by data releases this week as inflation and unemployment data will be in focus.

## SEK: Hoping for a better real rate as Riksbank remains ultrabearish

The Riksbank will release today the minutes of its 30 June meeting, which saw a reiteration of its ultra-dovish stance despite acknowledging an improved economic outlook. The inflation outlook has, however, remained quite depressed and consensus is looking at a slowdown to 1.3% in June headline inflation (which will be released this Wednesday). Lower inflation should not come as a surprise to markets, and with the Riksbank set to keep rates very low for multiple years anyway, Sweden's krona might at least marginally benefit from an improvement in its real rate as inflationary pressures ease. Still, we see SEK's generally unattractive rate profile as a likely drag to the currency should markets turn more bullish again on the global reflationary story.

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