

## FX Daily: Surfing on parity

Will this be the week when EUR/USD hits parity? We think the chances are relatively high, as fears of a Russian gas shutdown, consolidating hawkish bets on the Fed, and risk sentiment instability all argue against a recovery in the pair in the near term. This week, US CPI will be in focus as we approach a busy period for central bank rate decisions



### USD: More strength possible

The dollar appears to have started the week on a strong footing, again. [Friday's above-consensus payroll number](#) helped markets cement their expectations around a 75bp rate hike at the July meeting, and generated some further hawkish re-pricing across the whole USD swap curve. As we've highlighted multiple times recently, we don't expect the Federal Reserve narrative to turn much less supportive for the dollar over the summer.

The other major drivers of dollar strength; global risk aversion and recession fears, also look likely to remain in place in the near term. Stock futures point to another open in the red today in Western markets, and investors will keep their eyes open for news about the Russia-EU feud on gas flows, which bears the risk of dealing a severe blow to the region's economic outlook. Friday's payrolls have continued to feed the narrative that the US economy is in a less vulnerable spot compared to Europe and other parts of the world.

In the week ahead, the biggest focus will be on US CPI numbers for the month of June. Our economics team's view is that headline inflation will show little sign of abating as prices of gasoline, food and airline fares have continued to rise. We forecast headline CPI to have risen by 8.7% in June, while the core rate may have modestly slowed down to 5.8% from 6.0%. We think the overall message for markets is that further aggressive tightening from the Fed remains warranted, which should consolidate a supportive underlying narrative for the dollar.

Elsewhere in the G10, keep an eye on two central bank meetings this week, the Reserve Bank of New Zealand and the Bank of Canada. We [expect the RBNZ to hike by another 50bp](#), in line with its latest projections, although a rapidly deteriorating economic picture and housing market woes suggest a recalibration of the banks' hawkish tone may occur later this year. When it comes to the BoC, [we forecast a 75bp hike](#), to be accompanied by a reiteration that more aggressive tightening is on the way. However, both the New Zealand and Canadian dollar - as well as most other pro-cyclical currencies - may remain primarily driven by external/risk-sentiment factors, with downside risks in the near-term likely to remain significant.

DXY may easily find its way above 108.00 this week. There is nothing to be highlighted in the US calendar today.

## 📌 EUR: Parity inches closer

We struggle to see EUR/USD rapidly inverting its recent bearish trend this week. Most key drivers of the pair's recent weakness (risk sentiment, Fed-ECB divergence, to name two) don't look highly likely to improve just yet, and the lingering concerns about a reduction in Russian gas flows to the EU should continue to keep the euro rather unattractive. French Finance Minister Bruno Le Maire said that Europe must prepare for a full shutdown of Russia's gas flows as the Nord Stream 1 pipeline shuts for 10 days for scheduled maintenance today and many fear Russia may take the chance to halt or considerably trim its exports.

There has been much discussion about EUR/USD hitting parity and given the lingering downside risks highlighted above, the chances of this happening as early as this week are quite high. We discussed how far the downturn for the pair could go if it reaches parity [in this article](#).

The eurozone's calendar is not very busy this week, with tomorrow's ZEW survey out of Germany being the major release. On the European Central Bank side, we'll hear from Joachim Nagel today, and a few other members later this week. These will be the last speeches before we enter the "quiet period" ahead of the July policy meeting.

## 📌 GBP: Sunak emerging as front runner?

A number of candidates have thrown their hats into the ring as the process to elect the new Conservative Party leader (and future Prime Minister) kicks off. The consensus appears to be that former Chancellor Rishi Sunak is the front runner, although it is still very early days to reasonably conclude much on this.

Naturally, markets are trying to gauge what could be the policy implications for each candidate. For now, the general impression is that most of the major candidates - with the possible exception of Liz Truss - could have a less hawkish stance on Brexit and the UK-EU relationships.

Still, we expect sterling to be only modestly influenced by the Tory leadership contest, and

downside risks stemming from the challenging external environment, a grim domestic outlook and a potential dovish repricing of the Bank of England's rate expectations look set to remain much more relevant. Speaking of the BoE, Governor Andrew Bailey will be questioned by MPs on the Financial Stability Report today. The UK calendar is rather quiet otherwise this week.

Since EUR remains in a fragile state too, EUR/GBP may remain in a 0.8450-0.8500 range for now, while GBP/USD could extend losses to the 1.1700-1.1800 area on the back of dollar strength.

## 📌 CEE: Hope for a quieter week and the dust settling

After a busy week, we have a rather lighter calendar in the region over the coming days, with mostly secondary data coming in. In Poland, we will see the current account for May, final CPI numbers and state budget numbers. In the Czech Republic, the headline this Wednesday will be June inflation. [We expect](#) a further acceleration from 16.0% to 17.3% year-on-year, slightly above market expectations. Also, we will see current account and labour market numbers. In Hungary, the central bank will meet on Tuesday to raise interest rates by 200bp as promised last week. And last but not least, in Romania, we expect inflation to accelerate from 14.5% to 15.0% YoY in June.

On the market side, for the start of the week, we expect the dust to settle from last week's bloodbath. For the Polish zloty, the key level remains 4.80 per euro since Thursday's central bank decision for a smaller-than-expected rate hike. We expect the depreciation pressure to continue. Although [we do not consider](#) the governor's speech as dovish as the market, the interest rate differential contracted by around 80bp at the end of the week and market sentiment remains negative. In Hungary, the market is a bit more confident about future rate hikes, but we still see the forint more around 408 EUR/HUF vs. the current 405. In the Czech Republic, Friday's data showed that FX intervention in May cost the central bank EUR3.5bn, close to our previous estimates. At the same time, preliminary data suggests, unsurprisingly, that last week it cost the Czech National Bank the largest amount of FX reserves since the start in mid-May to keep the koruna around 24.75 per euro.

However, more interesting for now is the outcome of Thursday's non-monetary policy meeting of the central bank, which did not produce any mention of FX intervention or monetary policy. This led to the liquidation of short positions built in the previous days on the CNB's decision to move the level a bit lower. In any case, we continue to believe that the central bank will remain active in the market with a possible slide to stronger levels.

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