FX Daily: The pound's rebound proves short-lived

With the UK government's fiscal support fully priced in, the focus turns to disappointing GDP data and the ongoing Brexit talks

USD: Little evidence of any real price pressures building in the US

US-China tensions about the situation in the South China Sea helped the US dollar and weighed on cyclical currencies overnight, with the trade-weighted dollar remaining firmly in the range of recent weeks. While benefiting for now, possible progress made towards an EU recovery fund at the end of the week should keep USD gains limited. On the data front, US June headline CPI is set to rebound, with gasoline prices being a major positive contributor. As this is more of a bounce back from extreme levels rather than any real price pressures (CPI ex food and energy should in fact decelerate in June), markets will look through it and won't infer any implication for the FOMC's stance.

EUR: Waiting for the EU leaders' summit

EUR/USD has settled in the short-term 1.13-1.14 trading range, with the EU leaders' summit at the end of the week (and possible agreement on a €750bn recovery fund) being a potential catalyst for a move higher, above the 1.1400 level. The risk of good news should keep EUR/USD above 1.1300 throughout the week. On the data front, the German July ZEW Current Situation index should continue to modestly grind higher. In Sweden, June CPI is set to bounce from 0% to 0.5%, but this unlikely to be a game changer for the Riksbank which signalled flat rates (at 0%) over its entire forecast horizon.

GBP: The dissipating short-term rebound

Sterling's rebound proved short-lived and EUR/GBP is back above the 0.90 level. With the government fiscal support fully priced in, the focus turns back to the uncertainty around the UK-EU trade deal – a clear idiosyncratic negative for GBP which should keep the currency's underperformance in place. Any GBP spikes thus should continue to be short-lived during the summer. Indeed, the May UK GDP was rather disappointing this morning, printing only 1.8% (vs 5% expected).

PLN: The NBP to keep its dovish bias

The National Bank of Poland's meeting should not surprise today, with the MPC keeping its dovish bias, signalling that any change in interest rates (higher) is unlikely any time soon. With incumbent Andrzej Duda winning a second mandate in the Presidential election over the weekend, this points to the status quo and little impetus for the MPC to change its stance. We continue to see the NBP as the most dovish central bank in the Central and Eastern European region and expect it to extend quantitative easing into 2021 later this year. With its real rate one of the most negative in the emerging markets space, all this points to the zloty's underperformance vs its CEE peers. We see PLN/HUF moving below the 78.0 level in coming weeks.

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