

FX Daily: The euro faces a long June

Despite the large sell-off in French government bond markets yesterday and the 0.7% fall in the trade-weighted euro, there has not been much follow-through selling of EUR/USD overnight. Maybe that is because Marine Le Pen's RN party may not secure a majority at elections later this month. Expect a quiet session today, with the focus on NFIB & ECB speakers



25bp-50bp rates cuts in Europe and Canada can keep the dollar bid this week

➔ USD: Consolidation ahead of Wednesday's event risk

The DXY dollar index had a relatively quiet session after all and did not see much follow-through buying despite all the commotion in European politics. The dollar's upside break out still stands, however, and DXY will need to close below gap support at 104.95 to reverse an otherwise bullish near-term outlook.

Today's US data calendar is relatively light, where the NFIB small business optimism index is the only event on the agenda. The headline optimism index has remained relatively subdued since summer 2022, although the breakdown of the hiring and wage plans occasionally catches the market's attention. We doubt this will be a market mover today as investors await tomorrow's CPI-FOMC double-header before making new plans.

Please see our preview for tomorrow's Federal Reserve meeting [here](#). We note the dollar has

ended lower on the day after the last four consecutive FOMC meetings – largely on the back of Chair Jerome Powell's dovish rhetoric at the press conference. We cannot rule out that happening again given that market pricing of this year's Fed easing cycle remains on the low side (just 35bp currently).

Chris Turner

➔ EUR: Sizing up French political risk

The biggest fallout from the weekend European elections was on the French bond market. Here, the 10-year OAT-Bund government bond spread widened a sharp 7-8bp to the widest levels since last year. That the French government bond market is the focal point of stress is understandable. S&P had recently cut France's sovereign rating to AA- from AA on budgetary concerns. This came after last year's much wider than expected 5.5% of GDP budget deficit on the back of weak growth and soft revenues. Macron's government was already struggling with fiscal consolidation, and the concern is now that any National Rally (RN) government will follow a Trump-esque approach to fiscal consolidation – i.e., trying to grow its way out of the problem.

These fiscal concerns will likely sit in the markets over the coming months. On 19 June, [ING's economists think](#) that the European Commission may well launch its Excessive Deficit Procedure against France. How the next French government responds to that will impact the euro. Needless to say this is not an attractive proposition for the euro – fiscal consolidation or a possible French debt crisis should warnings from Brussels be ignored. For reference, latest opinion polls suggest Marine Le Pen's RN party will secure the largest vote share in elections on 30 June/7 July, but not an absolute majority. Inevitably, the focus will then turn to possible coalitions and their implications.

In light of the above, EUR/USD is going to struggle to rally this month. We suspect it will continue to trade around the 1.07/08 area, with downside risks. For today, the focus will be on eurozone speakers and in particular on European Central Bank Chief Economist Philip Lane at 1:05pm CET today. The ECB is at pains not to pre-commit on further easing plans (another 31bp of easing is priced for this year). And given the vulnerable euro and the ECB's fears that a weaker EUR/USD could damage the disinflation process, we suspect the central bank will want to talk tough for the time being.

1.0800 should now prove strong resistance for EUR/USD.

Chris Turner

➔ GBP: Softer jobs data not material for sterling

EUR/GBP has rallied 0.2% this European morning on a slightly larger-than-expected decline in employment and a fractionally softer-than-expected earnings figure. But as James Smith, ING's UK economist says: "The BoE has cautioned that this may be indirectly affected by the data issues affecting the labour force survey, and seems to have been deprioritised it when assessing when to cut rates". Given the Bank Of England's lack of opportunities to communicate with the market because of the 4 July election, we will have to wait on the 20 June BoE rate meeting for major updates here.

EUR/GBP looks like it will trade out a 0.8450-0.8500 range near term. However, we think the re-

pricing of the BoE rate cycle will be the biggest driver this summer and look for a move back to the 0.86/87 area over the next couple of months.

Chris Turner

📉 MXN: President-elect Sheinbaum keeps the peso on the backfoot

USD/MXN traded back close to the recent 18.60 highs in Asia overnight after Mexico's President-elect, Claudia Sheinbaum, said that reform of the judiciary would be one of the first topics to be discussed when the new congress starts in September. Recall that the peso has sold off 8% on fears that the Morena party performed so well in recent elections that it could push through some market non-friendly constitutional reforms. Confirmation that this will be on the agenda will be seen as negative news, and North American investors could take the peso lower again at their open today.

We have been bullish on the peso for a long time, but would remain cautious now. Additionally, the very popular long MXN/JPY carry trade may face further challenges this Friday when the Bank of Japan meets to set policy. No rate change is expected, but we could hear about the start of BoJ's quantitative tightening, where BoJ monthly purchases of JGBs could be cut from JPY6trn to JPY5.5trn or even JPY5.0trn. This could help the yen.

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