FX Daily: The search for dovish validation continues

Yesterday's US data was a mixed bag, failing to unequivocally endorse the recent speculation on Fed rate cuts. Today, focus will be on the PCE, personal spending and more Fedspeak. EUR/USD has its sights on 1.20, but the path to get there remains very conditional on US-related factors

The dollar fell after a report that Trump may name a new Fed Chair early. The White House said the decision is not "imminent"

USD: Still waiting on the data catalyst

US data sent very mixed messages yesterday to a market seeking validation of recent dovish Fed speculation. 1Q GDP was revised again, showing an even bigger quarter-on-quarter annualised contraction of -0.5% compared to the previously reported -0.2%. Personal consumption was revised lower from 1.2% to 0.5% QoQ, and the core PCE rose slightly from 3.4% to 3.5%. Other negative news came from the trade deficit, which widened more than expected to $96.6bn, versus forecasts of $86.1bn. This should be a drag on 2Q GDP.

Jobless claims were mixed, with initial claims falling and continuing claims rising. On the positive side, durable goods orders spiked 16% month-on-month in May, almost entirely thanks to a surge in non-defence aircraft orders. Stripping out aircraft, non-defence capital goods orders rose a respectable 1.7% after last month's 1.4% drop, leaving the underlying trend flat. That probably helped shield the dollar from other soft data.

All in all, nothing in the US calendar screamed in favour of another leg lower in short-term USD swap rates. The 2-year USD OIS has fallen from 3.65% to 3.45% since the start of the week on the back of FOMC dissenters' comments. Today, the highlight in data is the Fed's preferred inflation measure, the core PCE, for the month of May. That's expected at 0.1% month-on-month, the same as in April. Any print below that should hit the dollar, even though at this stage we think it is employment data that could have a bigger impact. Personal spending figures for May are also published today.

Fedspeak also remains highly relevant. Yesterday, Mary Daly, Susan Collins and Michael Barr sided with Chair Jay Powell's cautious rhetoric, following reports that Trump could pick a new Chair early. The White House said the decision is not "imminent", but the dollar's extreme sensitivity to the Fed independence theme means unconfirmed media reports are enough to trigger a selloff. Today, we'll hear from Neel Kashkari, John Williams and Beth Hammack.

The balance of risks for the dollar remains tilted to the downside, with multiple factors – Fed, data, spending bill, tariffs – all carrying the potential to trigger another downward adjustment in the dollar. Until next week's data offers some clarity on the actual plausibility of a July cut, markets may retain a bias to receive front-end USD rates and fade dollar rallies.

Francesco Pesole

EUR: 1.20 not far, but not straightforward either

As discussed in yesterday's note, 1.20 is within reach for EUR/USD, but it's mostly US factors that hold the key to the next move. Our baseline scenario is actually that EUR/USD will settle just below current levels (around 1.15-1.16) as markets' dovish bets prove misplaced, but we concede that upside risks for the pair remain high before the data endorses our view.

Today, we'll see the first flash CPI estimates in the eurozone. French inflation is expected to remain below 1.0% after the recent deceleration, while Spain's harmonised CPI is seen accelerating to just above 2.0%. Barring major surprises there, markets will likely wait until Monday's German numbers are published to draw any conclusions for the European Central Bank.

Speaking of the ECB, we'll hear from three Governing Council doves today: Francois Villeroy, Olli Rehn and Piero Cipollone. Let's see whether the drop in oil prices triggers some pushback against the hawkish repricing in the EUR curve.

Francesco Pesole

JPY: Slower inflation delays JPY gains

The yen has been the only G10 currency losing against the dollar since the start of June, with the key driver being a dovish reassessment of Bank of Japan rate expectations after the latest meeting. Tokyo's June CPI data released this morning carried the potential for a revamp in hawkish bets, but the print was softer than expected, at 3.1% for both core and headline inflation versus the expected 3.1%.

While the figures are still above the BoJ's supposed tolerance level, they mark a potential inflection point that endorses a more cautious approach to monetary tightening. Retail sales figures for May also showed a MoM contraction.

The yen remains, however, broadly attractive in our view. Our model shows USD/JPY is now trading below its near-term fair value of 144.0, and the upcoming risk of tariff-related turmoil in July, plus limited room for further dovish repricing in BoJ expectations, suggest a retest of early-June 142.4 lows looks very much possible.

Francesco Pesole

CEE: Forint breaks key levels and enters a more fragile space

The end of the week in the CEE region should be quieter. Today's calendar has only the final 1Q GDP numbers in the Czech Republic, which should confirm the previous economic recovery. We could potentially see some upward revision, especially in household consumption, supporting the hawkish CNB case.

CEE currencies again saw further gains yesterday following a weaker US dollar, hawkish central banks in the region and general risk-on sentiment. Most interestingly, EUR/HUF broke the key 400 level and is getting into territory where we are becoming less bullish. At the same time, the NBH released its inflation report yesterday, and the details of the new forecast suggest some downside risk to inflation, especially in June and July when the market could begin to get the impression that a dovish turn is imminent. We think the central bank will ignore the temporary drop in inflation and wait until next year. However, global conditions led by core rates are pushing HUF rates down already, which should eventually hinder further HUF gains. Still, this may not be the main driver, and other factors may push EUR/HUF down further, but we are becoming more cautious here.

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