

FX Daily: Trade and Bank of England decision important for GBP today

The dollar started the day a little stronger after last night's FOMC meeting, which was read as an acknowledgement of the risk of stagflation (no early Fed cuts). Also helping the dollar is the focus on the announcement of a US-UK trade deal today and whether the baseline 10% tariff can be negotiated away. The Bank of England is expected to cut today



The Bank of England in London

➔ USD: Dollar to take its cue from the US-UK trade deal

Following a social media post from President Trump last night that a major trade deal would be announced at 16CET/10ET today, speculation is rife that it will be a US-UK agreement. While US-UK trade relations are not usually a material driver of global financial markets, today's deal may have more impact than usual. In focus will primarily be whether the 10% baseline US tariffs in place under the current 'paused' conditions can be negotiated away. Consensus expects it to remain in place on the view that Washington needs tariff receipts to fund tax cuts this summer. If the baseline 10% is removed, this would be a bullish surprise for risk assets and would probably see an extension of today's dollar and equity market rally.

Also helping the dollar a little has been a reassessment of last night's [FOMC meeting](#). As James Knightley noted, the takeaway was the Fed acknowledging the stagflationary risks of higher inflation and higher unemployment. These could come through in the Fed's next set of economic projections released in June. After initially dropping last night, USD interest rates are heading higher this morning, though this could also be a function of better risk sentiment. US Treasury Secretary Scott Bessent is on his way to Geneva to start trade talks with Chinese counterparts this weekend.

The US data calendar is light today. As usual, weekly jobless claims are in focus and are expected to correct a little lower from last week's jump to 241,000. Should claims stay high, the dollar could nudge lower on the view that business pessimism was finally revealing itself in the jobs market.

As above, the nature of the US-UK trade deal should be the biggest DXY driver today. A surprise removal of the 10% baseline tariff could see DXY challenge 100.35/50 resistance, where we would expect more selling to emerge. But we imagine quite a few protective buy stops are now being placed above 101.00 from the speculative community.

Chris Turner

📌 EUR: Are long positions getting stale?

EUR/USD has drifted lower to test support at 1.1300 today. Recently, we have been saying that the dollar bounce has been lacklustre, but positioning probably means that a move under 1.1250/1260 today could do some damage. Let's see what the US-UK trade deal has to offer.

Please also take a look at our [latest report on De-dollarisation](#) and the opportunities open to investment in European fixed income products. We've called the report 'Unipolar disorder' to reflect the potentially disorderly transition away from a dollar-centric financial system. The report also includes a longer-term look at EUR/USD and serves as a reminder that the euro requires some major reversal in terms of trade (much lower energy prices) or some huge boost in eurozone productivity if much higher EUR/USD levels are to be achieved.

Chris Turner

Elsewhere, Sweden's and Norway's central banks are expected to keep rates on hold as they announce policy this morning. The Riksbank ([preview here](#)) had previously signalled it was likely done with cutting rates, but the fresh economic downside risks from trade tensions and a more dovish ECB now warrant a more open stance to another cut. We think that will be delivered at the June meeting, while markets are expecting it in August. The implications for SEK should be limited as external factors dominate.

Norges Bank ([preview here](#)) could also sound more dovish compared to its last meeting, as trade frictions and a sharp drop in commodity prices increase recessionary risks in Norway. Markets are pricing the first cut in August, but we think it can come as soon as June, and will be followed by another in September. NOK has been the best-performing G10 currency in the past two weeks and we still think it has room to rise further against both EUR and USD. A potentially dovish Norges Bank today may only set NOK back temporarily.

Francesco Pesole

📈 GBP: We're not as dovish as some on the BoE

Today's Bank of England meeting should be a market mover. While a 25bp rate cut to 4.25% is widely expected, what is probably the single most important area today is what the BoE does with this following sentence: "Based on the Committee's evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate". Those more dovish in the market are looking for this "gradual and careful" phrase to be dropped/amended to signal a sharper set of BoE rate cuts. Our UK economist, James Smith, [is not so sure](#) that the BoE is ready to drop that phrase just yet.

Given that the market is now pricing four 25bp rate cuts this year and we expect three (May, August, November), if BoE easing remains "gradual and careful", sterling could rally. For reference, the FX options market prices an 80 USD pip break-even range for GBP/USD over the next day. And for EUR/GBP, that break-even is 39 GBP pips. GBP/USD could get distorted by global risk sentiment today, but we would say a less dovish than expected BoE today could drive EUR/GBP to the 0.8435/40 area.

Chris Turner

➡ CEE: Central banks decide next direction and more to come

As expected, the Czech National Bank [cut rates by 25bp](#) to 3.50%. We saw one vote for a pause showing some hawkish bias but otherwise the overall tone was less hawkish than expected. The new forecast did not introduce significant changes, and the governor provided limited forward guidance. We believe the next cut may come in August after a pause in June as the Board waits for a peak in the inflation bounce in the coming months. We thus leave the terminal rate unchanged at 3.25% in our forecast. However, it is clear that the CNB remains very spot inflation oriented and the next numbers will decide the future direction.

The National Bank of Poland also [cut rates by 50bp](#) to 5.25% as expected, reopening the cutting cycle after a year and a half. The statement's wording, particularly the term "rate adjustment," drew attention as it might imply several larger cuts rather than the typical gradual reductions. However, overall uncertainty about the future direction persists. We'll see more from the governor during the press conference today.

The Czech market is closed today for a public holiday. However, EUR/CZK looks fair to us at current levels slightly below 24.900. We retain a slightly bullish view on the CZK in the medium-term given the outlook for inflation on still dovish market pricing. However, after yesterday's CNB meeting, it is clear that the downside for EUR/CZK is less than we expected.

EUR/PLN, on the other hand, may receive some downside support if today's press conference confirms a smaller cutting cycle than market pricing suggests, but conviction is low here given the NBP's unclear communication. For us, PLN/CZK is likely to find a bottom for now and remain stuck in the 5.800-850 range.

EUR/RON broke 5.100 yesterday and it seems this line in the sand didn't last long. 1M forward implied yield reached 10% and the ROMGB sell-off continues, especially in front-end following implied yields, suggesting continued pressure on the currency, leaving EUR/RON upside open for now.

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