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FX Daily: Trump bets drive dollar higher

For the second time in five days, we saw the dollar rallying on the back of higher perceived chances of Donald Trump winning the US presidency, this time after a favourable Supreme Court ruling. On the macro side, things may not be as supportive for the dollar this week, and we also saw some risks of a dovish tilt from Fed Chair Jerome Powell in Sintra

News outlets gather in front of the US Supreme Court as it issues the last remaining opinions of the term, including a decision on Donald Trump's immunity from prosecution

USD: Macro versus Trump

With the exception of some strengthening in the euro and the Norwegian krone thanks to a post French-vote relief, the dollar has had a good start to the week. For the second time in five days, the dollar is appreciating on the back of higher perceived chances of Donald Trump winning the US presidency. Yesterday, the US Supreme Court granted Trump some immunity for trying to reverse the 2020 election results, making it unlikely he will face trial before the November vote.

It is now clear that investors have made the Trump-stronger dollar link. This has also been our interpretation given the prospect of lower taxes, inflationary protectionism measures and greater geopolitical risks under Trump. On the side of the Democrats, there has been pressure on President Joe Biden to step down from the race. Given the market's growing scepticism of Biden's chances against Trump, there is a possibility that him stepping down would be a dollar-negative development, especially if he gets replaced by California Governor Gavin Newsom.

On the macro side, the June ISM manufacturing index for the US slightly softened to 48.5 yesterday, indicating continued contraction. Key components such as production, new orders, and employment also remained below the 50 threshold and inflation pressures eased, with the prices paid component dropping to 52.1. Construction spending fell unexpectedly, emphasising the reliance on consumer activity for economic growth.

Today, JOLTS job openings for May have decent market-moving potential. Remember how a surprise drop to 8059k a month ago drove the dollar moderately lower. Expectations are for another decline to 7950k today. The other big event is Federal Reserve Chair Jerome Powell participating in a Sintra panel with ECB President Christine Lagarde (3:30m CET). There has been a tendency from Powell to be a bit more optimistic than the FOMC consensus on disinflation, and we think there are some downside risks for the dollar ahead of today's speech.

USD/JPY remains very much at the centre of investors' focus given the high risk of FX intervention. However, as we noted last week, the new line in the sand for Japanese authorities may be close to 165.

Francesco Pesole

EUR: Inflation should slow

The relief rally in the euro following French election results being in line with expectations ran out of steam yesterday, and we doubt there will be significant extra support for the common currency given the open questions ahead of the second round on Sunday 7 July.

Interestingly, the support for other European currencies was not homogenous, with markets picking the higher-yielding NOK and GBP over the lower yielding SEK and CHF. A strengthening in NOK/SEK on the back of policy divergence is one of our core calls for this summer, as discussed in our latest Scandinavian FX update.

Another reason that the euro does not look likely to get much idiosyncratic support is that regional CPI estimates have so far come in in line with expectations, and pointed at declining inflation in the eurozone in June. Consensus for today's eurozone-wide prints are 2.5% for headline and 2.8% for core. That is probably not enough to trigger a major repricing in rate expectations, but could soften the hawkish pushback by European Central Bank officials in Sintra. Lagarde will deliver remarks today in the panel with Powell after she said the ECB needs more to assess inflation uncertainty in her opening remarks yesterday.

As discussed above, we think the dollar is looking at some downside risks, but the euro appears in a worse position compared to high-beta currencies like NOK, AUD and NZD. A USD-driven move to 1.0800 is possible in EUR/USD in the next couple of days, but the upside should remain capped by French political risk this week, in our view.

Francesco Pesole

AUD: RBA keeps rate hike on the table

The Reserve Bank of Australia published the minutes of its 18 June policy meeting last night. It was confirmed that board discussed raising rates but ultimately saw the case for a hold as the "stronger one", although it is not ruling anything in or out in terms of future policy moves.

Remember that the meeting was followed by a major inflation surprise in the May read, which rose from 3.6% to 4.0% year-on-year. As our economics team had discussed then, there is a non-negligible risk the RBA will raise rates again (around 50% priced in by November), and the second quarter CPI report on 31 July will be a make-or-break event. Another inflation surprise and a rate hike will be a very tangible possibility.

That possibility is keeping us confident that AUD will have a strong summer. As we see US macro data endorsing rising dovish bets in the US, we think high-beta currencies can do well and markets will reward especially those that can count on hawkish domestic central banks. A move to 0.68 in AUD/USD remains our base case.

Francesco Pesole

CEE: Relief came but space for rally is limited

Today's calendar in the CEE region is almost empty, with only secondary PPI and unemployment data in Romania this morning. The National Bank of Poland's two-day meeting starts today, but we won't see the outcome until tomorrow and the press conference on Thursday. However, the French election result over the weekend has brought some relief for CEE FX and higher EUR/USD delivered some support for the region, and the situation at least seems clearer for now.

After yesterday's weakening of the CZK, we think EUR/CZK is close to its peak, carefully following the falling rate differential after the larger-than-expected Czech National Bank rate cut last week. However, it is probably too early to turn bullish here. On the other hand, PLN and HUF should have an easier time but even so, space for a rally seems limited. After yesterday's paying flow, PLN seems most attractive at current levels within the region, which could be helped by the traditionally hawkish NBP press conference later this week. Meanwhile, yesterday already showed that 4.300 EUR/PLN is a tough one to break and we will need to see more. We do, however, believe this is the direction for the days ahead. EUR/HUF seems quite mixed at current levels and shouldn't see much momentum this week. While HUF may seem cheap in our 385-400 EUR/HUF range for the second half of the year, it can probably stay there for a while.

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