

## FX Daily: US data and Fed minutes in focus

Fed Chair Jay Powell sounded cautiously optimistic on disinflation which, paired with recent PCE data, allows markets to keep betting on a Fed rate cut in September. US data will take centre stage into the weekend and may eclipse the impact of Fed minutes. EUR/USD can climb to 1.0800 but may lack any EUR idiosyncratic support to rise much further



### 📌 USD: Data more relevant than minutes

The dollar traded on the soft side yesterday after Fed Chair Powell's comments in Sintra. As we had expected, he sounded rather upbeat on disinflation, even though he continued to warrant caution on the next policy moves. Markets are now pricing in 18bp worth of easing by the Fed by September, and 45bp in total by year-end.

Today, the focus will be on a few important data releases. ADP employment figures have little correlation with payrolls but still tend to have some market impact, and are expected to come in at a stronger 165k. Jobless claims will be watched closely after the recent rise in continuing claims to the highest since 2021. Yesterday, job openings for May rose unexpectedly, but the trend

continues to point at the kind of “inflection point” in the jobs market described by the Fed’s Mary Daly in a recent comment.

We’ll also see the release of the ISM services index for June today after the manufacturing index printed again in contractionary territory on Monday. Expectations are for a softening in the service sector with PMIs at 52.6 from 53.8 in May. That should not be a game changer as services remain in expansionary territory, and both jobs and inflation remain more important inputs for the Fed.

The Fed will publish the minutes of the 12 June FOMC meeting when dot plot projections were revised higher. Expect to see some headlines about members voicing concerns on inflation, although the market impact may not be very big after Powell’s comments in Sintra and recent encouraging data on disinflation.

We still see some downside risks for the dollar stemming from softer US data, but the euro-heavy DXY may not show that very clearly, given lingering political risks in the EU. We expect high-beta currencies like Norway’s krone and the Aussie dollar to reap most of the benefit of a softer dollar this week.

*Francesco Pesole*

## EUR: Last day in Sintra

[Eurozone inflation declined](#) in line with expectations in June (from 2.6% to 2.5%), but the core measure was unchanged at 2.9%, which endorses the widely reiterated caution on easing guidance by Christine Lagarde and other ECB members.

Today is the last day of the Sintra summit, which will include some closing comments by Lagarde, as well as speeches by the ECB’s Luis de Guindos, Piero Cipollone, Philip Lane and Klaas Knot. Chief Economist Philip Lane backed Lagarde’s message of patience yesterday, adding that June data (which had not been published yet) would not answer questions on services inflation.

The calendar in the eurozone turns much quieter in the second half of the week, and today it only includes final PMI figures and May PPI numbers. We continue to see risks of widening in the OAT-Bund spreads, which could curb euro gains even beyond the 7 July second French election round. While a softer USD could drive EUR/USD to 1.0800, we doubt there is enough steam to rise to 1.0900 for now.

*Francesco Pesole*

## PLN: NBP to deliver a regular dose of hawkishness to the zloty

A meeting of the National Bank of Poland is [scheduled for today](#). In line with market expectations and surveys, we expect rates to remain unchanged at 5.75%. So the main focus today will be on the statement and the new forecast. We should see changes in the growth and inflation forecasts. Although the GDP reading was very close to the Bank’s projection, its structure was very different. The NBP underestimated the rebound in consumption and overestimated investments.

Regarding GDP growth in 2Q24, the NBP projected it will amount to 3.6-3.7%, well above the current consensus of 3.0% which takes into account weak data recently on activity in

manufacturing and the construction sector. We therefore expect the NBP to lower its GDP growth projection for the short-term horizon. The inflation forecast is also expected to undergo several changes. In March, the NBP showed two scenarios depending on the government's adjustment measures. Today, we know more and therefore the central bank should again show only one scenario with inflation around 5% at the end of this year.

Tomorrow is the main event with Governor Adam Glapiński's press conference. He should maintain the hawkish tone we have seen in recent months given the rebounding inflation. In our view, rising inflation leaves no space for any monetary policy easing in 2024. We expect a relatively short window for easing of 75bp in total in 2025.

EUR/PLN has been in a range of 4.300-4.320 for the last two weeks. However, today and tomorrow could be a chance to break 4.300. Rates have bounced up in the last two days and we still see some room for upward repricing here. Markets are pricing in roughly 20bp of rate cuts for this year and 115bp in total by the end of next year, a bit more than we expect. Thus, the NBP's hawkish tone could once again add impetus to PLN.

*Frantisek Taborsky*

## ➔ CEE: Turkish disinflation has begun

In addition to the central bank meeting in Poland, we will also see an inflation print in Turkey in the region today. We think inflation peaked in May at 75.4% year-on-year and we will see the first disinflation in June with a drop to 72.5%. While the favourable base effect should lead to a significant decline in July and August, the extent of the decline is also dependent on potential adjustments in electricity and natural gas prices, while the government has signalled it won't hike the minimum wage at mid-year.

CEE FX briefly went into sell-off mode yesterday but later erased the losses and the situation stabilised. EUR/CZK ended the first day since the Czech National Bank meeting last week almost unchanged, showing the first signs of stabilisation. As we mentioned earlier, it is probably too early to turn bullish but we think the next move for EUR/CZK is down. EUR/HUF yesterday showed the biggest intraday move up among the CEE peers indicating vulnerability here, however, we do not expect much more for now but rather stagnation at current or lower levels if the global story allows.

*Frantisek Taborsky*

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