

FX Daily: Another CEE hiking cycle starts today

The cautious message from Fed Chair Powell yesterday should bring calm to FX markets over the summer and benefit selected cyclical currencies. Despite the recent decline, EUR/GBP still trades modestly expensive. After the NBH yesterday, the CNB is to start its hiking cycle today but, unlike HUF, CZK should benefit less



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📌 USD: Fed Chair Powell not rocking the boat for risk assets

As widely expected after the release of prepared remarks ahead of his testimony, Fed Chair Powell did not strike a hawkish tone yesterday and rather reiterated the temporary nature of current price pressures. After the hawkish surprise from the Fed last week, this should further help to stabilize the market and translate into a supportive environment over the summer for those cyclical currencies where local central banks have opted for meaningful tightening cycles. Among the high yielders are BRL and RUB, while among the low yields, HUF in the EM space and NOK in the G10 space stand out



EUR: Fed giving EUR/USD more time

EUR/USD benefited from the cautious Chair Powell remarks yesterday and, although the upside over the summer is unlikely to be pronounced as the Fed is ahead of the ECB in terms of the road towards tightening, equally EUR/USD downside should be limited as the Fed's tightening is not imminent and it should be a calm two months ahead of Jackson Hole in August.

In Hungary, the NBH delivered a 30bp hike in the benchmark rate yesterday with a clear commitment to do more, pointing at rate hikes on a monthly basis. We look for two consecutive 15bp hikes in the July and August meetings. This is bullish for HUF and we expect EUR/HUF to break below 350 this week.

📈 GBP: Sterling trading modestly cheap vs the euro

In the UK, the focus is on June PMIs. We may see a slight increase in the services index again, though manufacturing PMIs may reverse lower modestly after their meaningful rise last month. GBP has recently started recovering some ground vs EUR but despite this, EUR/GBP still screens as modestly overvalued based on our short term financial fair value model. We estimate the short-term fair value at 0.8500, suggesting a limited hurdle for further EUR/GBP decline, particularly if the UK-EZ trade dispute doesn't escalate further

📈 CZK: The CNB set to deliver a hawkish hike today

The Czech National Bank meets today and we expect a hawkish 25bp hike. Given the pro-inflationary risks and the easing of pandemic concerns, we see a strong case for a frontloaded CNB tightening cycle. We see it as likely that the CNB also hikes in August (by 25bp). We also don't rule out one 50bp hike today but rather are inclined to see two consecutive 25bp hikes. While not necessarily pre-committing to it in the press conference today, we would expect the tone to be hawkish. This should be modestly positive for CZK, EUR/CZK is likely to move back towards the 25.40 level, yet more pronounced gains are unlikely also due in part to speculative positioning, which we judge to be one-way long. Short term, we prefer HUF (see the EUR section above) to CZK.

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