FX Daily: Welcome, but brief, respite for the pound

Sterling was the star performer in quiet markets yesterday ahead of Chancellor Rishi Sunak's announcement today and a private Brexit dinner between chief negotiators

USD: Little to break ranges today

It looks like we're going to see a relatively quiet day in FX markets given the lack of market-moving events. Asian equities have been mixed overnight and left to focus on one of the wilder stories out there that the US could try and undermine the USD/HKD peg by restricting Hong Kong banks' access to USD purchases. HKD 12m forward points moved slightly higher (perhaps they should have move lower if the downside of the USD peg was under threat?), but it seems like this story may quickly fade. After all, the dollar needs all the buyers it can get given the size of the looming US deficits. Elsewhere, the API crude inventory data rose by 2 million barrels in the latest week warning of some downside risks to crude if a stock build is repeated in the 1630CET release of the EIA data. Today we'll also see a $29 billion US 10-year Treasury auction, where demand should be strong. We'd like to see DXY stay under 97.15 to keep our USD downside bias alive.

EUR: Merkel heads to Brussels

In a quiet day for data, the focus will be on Chancellor Angela Merkel's trip to Brussels to meet the heads of the three EU institutions. It's not clear that we'll see any comments emerging but focus on success of the EU Recovery Fund will start to dominate ahead of he July 17/18 EU summit. Large options strikes in quiet markets could see EUR/USD gravitate to the 1.1300 area for the 16CET expiry.

GBP: We're not expecting fireworks from the Chancellor today

In quiet markets yesterday, sterling was the star performer, breaking below the 0.90 level against the euro. We think stops were triggered near the 0.90 technical level, although it is fair to say a market short GBP may have been adjusting positions ahead of: i) today's announcement from Chancellor Rishi Sunak and ii) last night's private Brexit dinner between chief negotiators. On the former, we are not looking for major stimulus measures today, but more a package to support employment prospects (e.g. apprenticeships) and perhaps even a tax holiday for stamp duty on house purchases. We doubt this will move the needle on UK macro-monetary prospects and see EUR/GBP holding above 0.8920 area.

HUF: CPI to rise close to 3% target

In Hungary, the fuel price shock should push headline CPI close (though still below) the central bank's 3% target. This should be no game changer for the National Bank of Hungary which already indicated a relatively cautious stance and the bank signalled it won't cut the base rate below 0.60%. We see such a cautious stance as appropriate given the FX consideration and the risk of forint weakness if the NBH turns too dovish. Short-term we like HUF as the NBH won't turn on the monetary taps too much, and we expect the currency to correct further from oversold levels. We prefer HUF outperformance versus the Polish zloty – given that the National Bank of Poland has morphed into the most dovish central bank in the region. We target PLN/HUF at 78.00.

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