

## FX: Fed rhetoric supports dollar

With investors reducing the odds for a rate cut in the coming year, support for the dollar remains in place



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### 👆 USD: Fed in no rush to cut

With the Fed maintaining a cautiously upbeat tone ([see FOMC Review](#)) and Chair Jerome Powell noting that he doesn't see a "strong case for moving in either direction", the support for the dollar is set to remain in place as any imminent rate cut remains rather distant, in our view. Indeed, in response to Powell's press conference, markets priced out five basis points of cuts over a one-year time horizon. With the dollar currently enjoying the best of both worlds (attractive carry in good times, the reserve currency status in bad times) and the Fed signalling it is unlikely to take away or reduce the USD's high interest rate differential any time soon, the attractiveness of the dollar remains in place.

### 👇 EUR: EUR/USD to struggle in next six months but to rise in 2020

We have [revised our medium term EUR/USD forecast lower](#) (to 1.20 for end 2020 from 1.25 previously) but still expect EUR/USD strength next year. In particular, we expect (1) the growth differential to peak; (2) interest rate differentials to start narrowing; (3) the US twin deficit to start biting; (4) eurozone balance of payments to support EUR; and (5) cheap valuation to kick in.

Nonetheless, our near term EUR/USD outlook remains unchanged and we expect the cross to struggle over the next six months (bottoming at 1.10).

### 📉 **GBP: BoE on hold and stay on hold for the rest of the year**

The Bank of England is widely expected to remain on hold today ([see the BoE Preview](#)). In terms of forwards guidance, while the BoE is likely to keep the door open for potential hikes (with one or two committee members voting for a rate hike today) our economists see the chances of an increase this year as rather low, with economic growth set to remain capped by the ongoing Brexit uncertainty. This suggests sterling will remain relatively unchanged today as (a) the odds, albeit negligible, of a possible hike will remain in place; (b) yet the BoE communication is unlikely to increase the chances of a hike vs the current market pricing.

### ➡ **CZK: Possible dovish hike to only translate into limited CZK gains**

Despite some persistent foreign uncertainties, recent comments from members of the Czech National Bank have signalled there is higher support to back an interest rate hike today ([see CNB Preview](#)). This is due to high CPI (at 3%), a weak Czech koruna and tentatively declining Brexit uncertainty. While we look for a CNB hike today, we don't expect any positive spillover from the rate increase into CZK to last, as the May CNB hike may be a dovish one with limited guidance for any further tightening. This suggests that the EUR/CZK 25.50 support level should hold today. Medium term, we are bearish on CZK as the end of CNB tightening cycle is in sight and the late stage of the global economic cycle does not bode well for the overbought currency.