

FX: It could have been worse for the euro

Strong US consumer confidence numbers are expected later which should continue to support the dollar



📈 USD: US outperformance remains the story

Negotiating from a position of strength remains President Trump's modus operandi, and that should be supported today with another strong US consumer confidence release for May. We expect the US to maintain trade pressure on China and we are not looking for any immediate resolution. That said, FX markets are a little calmer now that the PBOC is flat-lining the USD/CNY fixes at 6.90. Expect the macro divergence story to keep the dollar supported in the near term, though Friday's release of US PCE inflation for April will be worth watching. This is thought to be one of the Fed's preferred measures of inflation and another low 1.6% YoY reading may see momentum moving towards the doves on the Fed. European FX weakness keeps DXY biased to 98.00/30

➡ EUR: European elections more a fragmentation than a populist revolt

Results of the weekend's European elections were perhaps not as bad as feared for the EUR. [As our team highlight](#), the results point to greater fragmentation of the political centre, but not a clean move towards euro-scepticism. And higher voter turnout shows a more engaged electorate. Apart from concerns over: a) a more fragile coalition in Germany and b) Le Pen running Macron close in

terms of popularity, the market's main point of attention will be Italy. Here a strong performance by Salvini's Lega points towards a budgetary confrontation with Brussels this summer and possibly early elections this autumn. The performance of Italian BTPs will again be under scrutiny and will keep the EUR on the backfoot. Until there is more clarity on the external trade story or perhaps the Fed engineers a weaker dollar, expect EUR/USD to stay pressured. 1.1110/30 remains a good support and we retain a 1.10 target for end June.

📌 GBP: It's Deja Vu (all over again!)

A big election win for the Brexit party echoes the UKIP success in 2014 – which prompted the former UK Prime Minister, David Cameron, to buy-off the UKIP vote with the offer of a Brexit referendum. Tory PM leadership candidates are therefore being dragged to the right again – making a No Deal Brexit more likely. Cable vulnerable to 1.25 once more.

📌 HUF: Dovish NBH to keep HUF under pressure

Hungary's NBH meets to set interest rates today and despite growth and inflation running at 5% and 4% YoY respectively, we expect the central bank to remain dovish. Our team expects the NBH to continue to focus on the uncertain external environment and not make any significant changes until the June meeting when fresh forecasts will be available in a new Inflation Report. Exceptionally negative real policy rates (around -3.7%) and concerns that the NBH is running policy too loose should keep the HUF under pressure and EUR/HUF en route to 330. After TRY, the HUF has been the poorest EMEA FX performer this quarter.

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