GBP: Bracing for a change in leadership

Prime Minister Theresa May is expected to announce her departure date today. This should keep the pressure on the pound

A downcast Theresa May in the UK's House of Commons on Tuesday

USD: Too much priced in (in terms of cuts)

The headline US April durable goods orders should be heavily dragged down by the transport numbers due to weak Boeing aircraft figures. But regional business surveys suggest that, outside of this component, the backdrop remains resilient. This in our view still makes the odds of a Fed rate cut this year unjustified (the market is pricing in a full 25 basis point rate cut for 2019). The lack of urgency to ease policy was also suggested by Fed speakers overnight (Robert Kaplan and Loretta Mester). This, in turn, points to a resilient dollar, particularly as concern about the ongoing trade war is unlikely to abate any time soon.

EUR: Upside limited

EUR/USD rebounded yesterday following the softer than expected US May PMI (which reflects the negativity associated with the trade war). Still, we see the EUR/USD upside as limited as the Fed is unlikely to shift towards a more dovish stance while US data should remain solid and the high USD interest rate differential prevents EUR/USD from a more persistent move upwards. EUR/USD 1.1265 level to act a near-term resistance.

GBP: Bracing for the change in leadership

Despite the prospect of higher wage growth and benign inflation (which should give UK consumer spending a modest boost), our economists look for a correction in UK retail sales following three months of strong increases. This won't help the pound, and with the rising probability of PM May resigning (the timetable for her departure is expected to be announced today with a 10 June date being circulated in the media) and a likely incoming eurosceptic PM in summer, pressure on GBP should remain in place. EUR/GBP to test the 0.8840 level, the highest level since late January.

CZK: Gradual depreciation underway

EUR/CZK continues to grind higher, now being close to the 25.90 level. As per our April Directional Economics, we turned bearish on the Czech koruna, as the key supporting factor over recent quarters (i.e. the hawkish central bank) is now gone. Coupled with concern about global and eurozone growth prospects, this does not bode well for the overbought CZK. EUR/CZK to further converge to the 25.90 level. In our view, the level of implied EUR/CZK understates the risk of a meaningful CZK decline should investors decide to trim their one-way positioning.