

## GBP: Fool's gold

A very difficult internal and external environment, plus light positioning, suggests the pound could slide to 1.25



Theresa May, UK Prime Minister

Source: Shutterstock

## USD: FOMC minutes should keep the dollar supported

The focus for financial markets over the next 24 hours will be the release of the minutes of the May FOMC meeting. This was the meeting when the Fed seemed to push back on ideas of an insurance rate cut and Chair Jerome Powell nudged the dollar and US interest rates a little higher by focusing on the "transitory" factors keeping inflation a little soft. Given the external environment, we doubt these minutes alone will do much to alter market pricing of a 25 basis point Fed cut by year-end, but equally it would be a big surprise were the minutes to add fuel to easing expectations. Thus we see them as a neutral to slightly dollar positive. Elsewhere, two outperforming currencies over the last week have been the Canadian dollar and Mexican peso. Exposure to the US economy is helpful here (in contrast to Australia's exposure to China), but we also think progress on the US-Mexico-Canada agreement (USMCA) may be helping. Here, President Trump's focus is on getting Congressional approval for the deal this summer, before sitting down to talk infrastructure spending. With Asian FX remaining firmly on the back foot, expect DXY to retest the high of the year at 98.33, but also prefer to build safe haven Japanese yen positions and assume the USD/JPY rally stalls before the 111.05 gap.

## ⬇ EUR: Draghi on the mike

European Central Bank President Mario Draghi speaks on monetary policy at 930CET at an ECB event: "Monetary policy in an incomplete monetary union". This comes at a time when market-based measures of inflation (EUR 5Y5Y inflation swap) are back near the 2016 lows and the market has started to price in a cut in the ECB's -0.40% deposit rate. Presumably, Draghi will be very cautious on the current monetary policy outlook and, like the OECD yesterday, opine on the need for fiscal stimulus. Ahead of contentious European elections tomorrow, expect the EUR/USD to stay soft (and also track GBP moves). Expect a retest of the 1.1110/30 lows.

## ⬇ GBP: Will May's new deal even make it to a vote?

Sterling is looking very vulnerable once again as it becomes clear Prime Minister Theresa May's 'new deal' will find very little fresh support in parliament. A disastrous Tory showing at upcoming elections (even Tory peer Lord Heseltine says he's going to vote Lib Dem!) will heap pressure on May to leave early. A very difficult internal and external environment, plus light positioning, suggests GBP could slide to 1.25.

## ➡ RUB: More OFZ issuance

It looks like the Russian Finance Ministry is taking advantage of the current favourable sentiment and front-loading a lot of OFZ issuance. Today sees another unlimited auction of 2024 and 2030 OFZs. Foreign appetite has been good and while these flows may temporarily support the rouble, we stick to the view that a less favourable balance of payments environment over coming months could send USD/RUB to 66.

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