GBP: Messy politics, messy price action

The pound has been temporarily saved from a further sell-off; here's our look at how FX markets could move today

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USD: Bracing for price pressures

Despite a generally good day for risk (the UK and Turkey aside) the dollar yesterday stayed reasonably well bid. US consumer credit released last night showed credit growth surging to 7.6% YoY in May and maintains the narrative of a strong US economy and a potential upside break-out in US prices. That should be the story running into Thursday's June CPI figures. Bearish flattening of the US yield curve is dollar positive and we could well be seeing an important break-out in USD/JPY. A move through the 111.20/40 area could trigger a run into the 114.00 area on the assumption that this year's US fiscal stimulus will see continued resilience in US equities. The US data calendar is relatively light today, but a new cycle high in US small business optimism should also serve as a reminder of the benefits of the tax cut. DXY to return to 94.50 led by $/JPY.

EUR: Little appetite for a range break-out

The EUR/USD rally stalled before 1.1800 yesterday and we doubt there is little appetite for an upside break-out near term. GBP weakness dragged the EUR lower, reminding investors that the UK crashing out of the EU without a deal is hardly in the best interests of the Eurozone. Today we should see some slightly better IP data across the region, but presumably, the German ZEW sentiment index should remain soft. A 1.1700-1.1800 range looks likely for EUR/USD.

GBP: Messy UK politics, messy GBP price action

GBP has been temporarily saved from a further sell-off as it emerged late yesterday that no leadership challenge had been mounted against May. The biggest risk to GBP now is a one-off dovish BoE re-pricing in markets; prior to yesterday's events, the UK OIS curve had been pricing in a 79% probability of an August rate hike – and today's new monthly UK GDP data release should support a hike. However, the Bank's post-Brexit policy reaction function goes beyond economics – and officials have explicitly conditioned their policy outlook on the assumption of a 'smooth Brexit adjustment'. Even the slightest of political risks could see the MPC hold-off raising rates in the short-term. Were the August rate hike to be fully priced-out – then GBP/USD could fall below the 1.30 level. It's clear that politics – not the economy – will be the catalyst.

HUF: Surging CPI to question NBH credibility again

Today sees Hungarian June CPI. We see inflation jumping above the NBH (Hungary central bank) 3% target for the first time since January 2013 – mainly driven by fuel and recreational services. Our base case is 3.1% YoY, but risks are to 3.3%. We don't see this as a game changer for the NBH since it looks for 3.2-3.4% CPI this summer based on projections released end June. Moreover, core inflation will remain unchanged at 2.5%, well below the target.

For the HUF, however, we think a number above 3.1% consensus could be bearish. The recent sell-off in the HUF above 330/EUR was largely driven by the market testing the NBH's credibility – namely its commitment to ultra-dovish policy in the face of higher inflation. A 3.3% YoY print today and no response from the NBH should re-ignite that story. 326.50 would be our initial EUR/HUF target.

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