

Global FX: Warning, it could get a bit 'Lionel'!

Forget the World Cup, today's Federal Reserve meeting could prove far more exciting



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USD: Fed comms shake-up means it could get Messi for markets this summer

It's the eve of the World Cup and that only means one thing – commence the excessive use of football puns by analysts in their market commentaries. And to be honest, we couldn't resist the temptation to join in – so if you are not a football fan, or have little interest in the World Cup, we do apologise in advance. Yet, before it all officially kicks-off, there is just the small matter of the June Fed and European Central Bank meetings to tackle. Today's FOMC meeting, in particular, should not be taken lightly – especially given the heightened challenges for global markets now stemming from Fed policy tightening. As such, what the Fed chooses to say today may set the tone for markets this summer.

It is worth mentioning that we could see a big shake-up in the Fed's communications strategy – with speculation that Chair Powell is looking to add a press briefing to every meeting (note currently only quarterly meetings have conferences). We think it's slightly misplaced to interpret

this – and every meeting being ‘live’ – as a signal that the Fed wants to tighten more aggressively than it currently intends to. Instead, we think it actually affords the central bank greater policy flexibility – to step-up or slowdown as is required. This flexibility would be particularly beneficial right now given that (a) Fed policy is approaching ‘neutral’ and hence there’s greater uncertainty over how markets can absorb further rate hikes and (b) the global trade backdrop remains highly fragile. We wouldn’t be surprised to see either the language over current policy settings in the Fed statement change or – if the Fed is truly shaking things up – the infamous ‘dot plot’ disappear.

Bottom line: We should prepare for higher short-term US interest rate volatility – and in the current market environment (but not in all market environments), this will be seen as USD positive. Expectations for a hawkish Fed are, however, high; any signs of Chair Powell easing up a bit could see risk rebound sharply.

EUR: Going into the ECB as an underdog but wary of a Draghi wonder strike

The euro goes into this World Cup summer shy of confidence – plagued of late by the somewhat recurring niggling injury of eurozone politics. Euro bulls were in clear Kroos control at the start of the year but the Hazard lights have been on for a while now. Still, those euro investors looking for a magical Silva bullet at this week’s ECB meeting could be left disappointed; the ECB may at best give the euro a short-term boost, but for more sustained gains we’ll need to see confidence restored over the eurozone growth outlook – and capital flowing back into Europe. Could a European team winning the World Cup help here?

GBP: On the defensive as politics means things look less rosy

We’re hoping that we won’t see the headline ‘Sterling takes a dive’ this summer – and certainly the odds of this appearing in financial newswires have been cut after Prime Minister Theresa May avoided a defeat in the House of Commons on the Brexit Bill ‘meaningful vote’ amendment ([see our reaction on Twitter for more](#)). GBP’s focus today will be on UK CPI; any miss may fuel the story that GBP base effects are unwinding quicker-than-anticipated and this could well dampen sentiment over an August Bank of England rate hike. This would keep GBP on the defensive – with soft data and a muddled Brexit political environment – adding little attacking threat.