

Little hope for US-EU trade war resolution

President Trump's latest tweet ahead of a meeting with European Council President Jean-Claude Juncker offers little hope for a resolution over trade



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USD: Little hope for a US-EU trade war resolution

European Council President Jean-Claude Juncker meets with President Trump in Washington today with the aim of de-escalating trade tensions. Judging by Trump's latest tweet, however, we're not expecting a major breakthrough.

The EU is coming to Washington tomorrow to negotiate a deal. I have an idea for them. Both the U.S. and the E.U. drop all Tariffs, Barriers and Subsidies! That would finally be called Free Market and Fair Trade! Hope they do it, we are ready - but they won't!

Risks remain tilted to more tough rhetoric from Trump, keeping the threat of auto tariffs alive. Still, the risk of auto tariffs is a well-known threat and any major breakthrough in today's negotiations

may not be enough to materially affect risk appetite. Rather, we look for the FX markets to remain steady today, in part helped by the stable USD/CNY overnight.

EUR: Czech central bank unleashes koruna rally

EUR/USD should stay close to the 1.1700 level with any positive effect from today's July German Ifo mitigated by the forthcoming US-EU meeting on trade. In the Central and Eastern European space, the Czech National Bank's comments about the pace of the tightening cycle unleashed a material rally in the koruna. We expect the CZK gains to continue in coming days ahead of next week's CNB meeting. EUR/CZK to converge towards the 25.50 level ahead of that meeting.

GBP: Sterling rally unlikely to have legs

Sterling got a boost from Prime Minister Theresa May's decision to formally take over Brexit negotiations. This has been seen by investors as, on the margin, decreasing the probability of a hard Brexit. We see sterling upside as limited and short-lived as we view yesterday's announcement as just formalising what has been already the case, with May being the key decision maker in the Brexit process (as opposed to the new Brexit Secretary Dominic Raab) in previous months. As a result, we don't expect yesterday's GBP recovery to have legs.

TRY: More weakness to come

Against market expectations, the Central Bank of Turkey decided to keep interest rates unchanged yesterday (defying the consensus and our own expectations for a 100 basis point hike). The pace of deterioration in the growth outlook, already-elevated lending rates and a belief that fiscal policy will provide support are likely reasons behind the decision. With the CBT underdelivering on the necessary monetary support for the lira, we expect downside pressure on the currency to remain in place. It looks like a matter of time before USD/TRY persistently breaks above the 5.00 level.