No respite for risk assets

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USD: No respite for risk assets

The respite for risk assets caused by hopes for easing trade wars has proven short-lived as White House economic advisor Larry Kudlow said President Trump was not softening his stance on China. USD/CNY reached yet another multi-month high while emerging market Asia FX came under pressure again. With limited prospects for major change in the US stance, risk assets and EM currencies should remain under pressure today, with the dollar staying bid.

EUR: CPI in focus

Individual countries within the eurozone release June CPI inflation readings today, which will contribute to the eurozone June flash CPI tomorrow (our economists expect inflation to hit the ECB target of 2% year on year). As for today, German CPI should come in at 2% YoY. We expect rising inflationary pressures to provide some cushion to the battered euro this week, particularly as market pricing of the ECB deposit rate path for the next year seems to be too dovish (i.e. one 10 basis point ECB deposit rate hike priced in only for the very end of 2019 vs our call for the overall 40bp rise). EUR/USD to stay above the 1.1500 level. In the central and eastern European space, yesterday's hike by the Czech National Bank failed to strengthen the koruna. Given that another full 25bp hike is priced in by end-2018 and the challenging environment for EM FX, we see scope for EUR/CZK downside as limited.

SEK: At risk to escalating trade wars

We expect May Swedish Retail sales to have a very limited impact on the Swedish krona today. The key driver of EUR/SEK remains the external environment and the threat of escalating trade wars. We see SEK as vulnerable and look for EUR/SEK reach 10.50 in one month.

HUF: Crunch time

EUR/HUF reached a new all-time high, briefly trading above the 328.00 level yesterday. We remain bearish on the forint as the lack of a central bank response makes the currency vulnerable in the current challenging environment for emerging market FX. The Hungarian National Bank's policy remains too loose, the cost of shorting the vulnerable forint is low and the cross is now close to the EUR/HUF 330 pain threshold. If the EUR/HUF moves above this level in a sustained manner, this will translate into CPI inflation potentially breaking above 4% in 3Q next year based on our estimates. With the NBH credibility in question (following its failure to control both the front- and the back-end of the HUF curve), the market will in our view demand a response once HUF becomes too pro-inflationary. And the more the NBH waits, the more questions will be asked and the more will the market demand.