

## Romania: A safe haven in times of stress

The trading environment for higher beta G10 FX and the emerging market currencies remains challenging. Fresh trade tensions and the cancellation of a US-North Korea summit aren't helping. But there's one pocket of relative safety



Source: NIS, Bloomberg, ING

### USD: General dollar strength intact

The trading environment for higher beta G10 FX and the emerging market currencies remains challenging. Generally, the overhang of the global trade wars remains intact as the signs of easing US-China trade tensions were replaced by the threat of US car tariffs while the cancellation of the US-North Korea summit is not particularly positive for risk assets either. On the local idiosyncratic level, a lack of stability in the Turkish lira following the emergency central bank rate hike (USD/TRY is re-testing the 4.8000 level again) does not help the general risk appetite either. Expect more of the same today, with the broad-based USD strength intact.

### EUR: Risk of German IFO following eurozone PMIs

The German May IFO index may show signs of stabilisation today. However, following the lower than expected eurozone May PMIs on Wednesday (which sent EUR/USD below 1.1700) there is a risk of a disappointing IFO reading (although the PMI and IFO don't always move into the same direction), which would weigh on the euro. EUR/USD may re-test yesterday's low of 1.1676.

## GBP: Potential upward revision to UK 1Q GDP a mild positive for pound

A first revision of 1Q UK GDP is due this morning. The Bank of England believes that the weak 0.1% quarter-on-quarter initial figure may be wildly underestimated (the central bank expects 0.3%). Historically, we have seen upward revisions during quarters with bad weather (as was the case in 1Q). While the upward revision does not necessarily increase the case for a more hawkish BoE (as the central bank already assumes an upward revision), from a market perspective, such an outcome could be modestly positive for the pound, particularly in light of the dovish re-pricing of past weeks. EUR/GBP to dip below 0.87400.

## CEE: Under pressure, with RON being the safe harbour in times of stress

It is likely to be another fragile day for Central and Eastern European FX as EUR/USD flirts with 1.1700 and the risk environment remains tricky (ie reoccurring risks to global trade as per the US threat of car tariffs – with the CEE region being exposed to the automotive production chain). In the current environment, the Romanian leu remains our favourite CEE long and a safe haven in times of stress given the managed nature of the currency, our view that the central bank cannot afford a meaningful RON depreciation (as it would further weaken an already challenging CPI outlook) and the very attractive carry (around 3.7% on EUR/RON). Interestingly, the lower beta Czech koruna has underperformed the higher beta Polish zloty and Hungarian forint this week. We attribute this partly to the still-stretched long positioning and growing investor nervousness about the direction of CZK. Given the current weak level of the koruna, we expect the CNB to turn more hawkish and deliver the next 25bp hike in August, with a materially-growing risk of a June hike. This should, in turn, stabilise the currency.