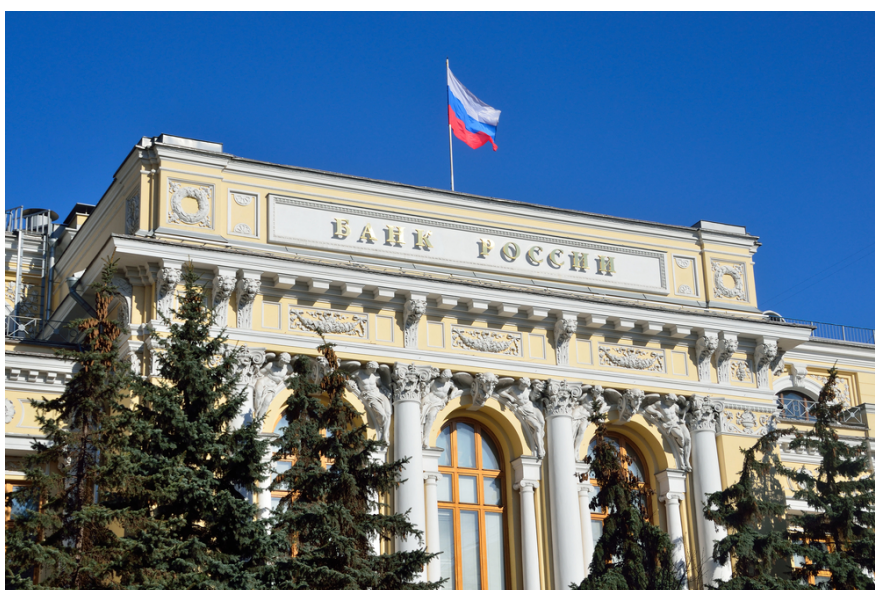


FX: Russia set to cut rates by 25bp

Russia's central bank meets today and is widely expected to start reversing the defensive rate hikes made last year. Here's what we expect from the rouble and the rest of the FX complex



Central Bank of Russia,
Moscow

➔ USD: Dollar in holding pattern ahead of Wednesday's FOMC

Radio silence from Fed speakers and softer data overseas has allowed the dollar to recover a little ground this week, although we still think it looks fragile against defensive currencies such as the Japanese yen and Swiss franc. Barring any escalation in trade wars or middle east tension, the focus today will be on US activity data – Retail Sales and Industrial Production. These disappointed in April, dropping the Atlanta Fed's Nowcast model reading of 2Q GDP back to 1.1% at the time – which has since bounce backed to 1.4%. Better activity data today may deliver a brief reprieve for the dollar.

➔ EUR: ECB easing expectations grow

Euro area market interest rates continue to decline, with a 10 basis point deposit rate cut now well on the way to being priced in over coming quarters. This comes at a time when market-based measures of inflation expectations are continuing to collapse. However, we expect to see euro weakness expressed through lower readings of EUR/JPY and EUR/CHF, rather than EUR/USD. Here, we think a weaker dollar story will win out this summer and EUR/USD can consolidate in the 1.12-1.14 area. As an aside, yesterday saw the ECB's [annual report on the international use of the](#)

[euro](#). Its use is edging up and we believe the vagaries of Washington policy will accelerate this process as the public and private sectors look to find ways to reduce their commercial exposure to the dollar.

➔ GBP: It's Johnson's to lose

Boris Johnson looks very likely to be one of the two leadership candidates to be put forward to party members later this month. Expect him still to run on a 31 October Brexit ticket until No. 10 is secured. Cable looks capped at 1.2750/2800.

⬇ RUB: CBR looks set to deliver a 25bp cut

The Central Bank of Russia meets to set interest rates today and is widely expected to start reversing the defensive rate hikes made last year. [We look for a 25bp cut](#) to 7.50%, followed by another cut in September. Investors will be looking for signs that the CBR is more confident in the CPI path (revising down the 2019 year-end forecast from 4.7-5.2%), upon which very strong demand for local OFZ bonds has been based. These flows into OFZs have been the key driver of rouble strength (the RUB is the best emerging markets FX performer this year) and worth around US\$3 billion in May alone. We [believe that dividend payments](#) (especially in July) will limit the rouble's upside at a time when the balance of payments seasonally softens. We'd be surprised if a widely expected rate cut today triggers enough of a rally in OFZs to drive the rouble below the 64.00/64.25/USD area.