

Some respite for the euro

A tentative agreement among EU leaders on a migration deal is giving the euro some support



EUR: Every little helps

EUR/USD rose overnight following a tentative agreement among EU leaders on a migration deal, which should ease the burden to countries such as Italy. This, in turn, reduces the chances of an imminent split among EU countries and is thus perceived as euro positive. On the data front, eurozone headline CPI is likely to reach the 2% YoY target today. Still, core CPI is expected to remain unchanged at 1.1% YoY and the European Central Bank is unlikely to react to the spike in prices as it just introduced new dovish forward rate guidance on the deposit rate. That said, inflation being at the target should at least be marginally supportive of the euro (particularly given the very dovish market pricing of the ECB deposit rate path). With EUR/USD higher, this should also give some short-term respite to central and eastern European currencies, which have been under material pressure recently (ie, EUR/Czech koruna briefly trading above 26.00 and EUR/Hungarian forint reaching an all-time high).

USD: Positive US growth story intact

US personal spending data today should confirm the solid outlook for US 2Q GDP, which our economists expect to grow by 4% quarter on quarter annualised, with the chance of an even stronger reading. Chicago PMI and the University of Michigan Sentiment index should also be

strong, underscoring the positive US growth story. This should, in turn, provide some cushion to the US dollar even when the general risk environment shows signs of improvement (such as today with emerging market Asia FX higher, as well as higher beta G10 FX).

GBP: EUR/GBP is breaking out of a tight range

The focus is on the final release of 1Q UK GDP. There is a chance it may get revised up closer to the Bank of England forecast. Such a revision would increase the chances of an August hike and be supportive for the pound, particularly in a situation where EUR/GBP is breaking higher after a period of very low volatility and no progress (as anticipated) on the issue of Brexit during the current EU summit.

CAD: Receding chances of the BoC rate hike

We look for a flat month-on-month GDP reading in Canada today following the softer high frequency data. Coupled with the ongoing trade worries and dovish comments from Governor Stephen Poloz this week, this implies that the chances of a Bank of Canada rate hike on 11 July are receding. USD/CAD is likely to stay above 1.3200 today.