

Stable yuan helps risk sentiment

A tentatively stable trading environment remains in place after Monday's decline in risk assets



USD: Market focuses on a stable CNY

The tentatively stable, non-negative trading environment remains in place after Monday's decline in risk assets, with markets looking through the US confirmation to impose 25% tariffs on Chinese imports (which was largely expected) and focusing on the relatively stable US dollar/Chinese yuan. The latter suggests a currently limited spillover from the former, [but the latest PBoC measures may not have a long-lasting effect](#). We look for broadly stable G10 and emerging market dollar crosses today. In the emerging markets, the focus is on the Turkish delegation in Washington (following the imposition of US sanctions) but it may be too early to expect significant progress. Selling pressure on the Turkish lira is likely to continue.

EUR: The calm summer trading continues

EUR/USD should continue hovering around the 1.1600 level, with calm summer trading and a lack of data points keeping the cross in the range. In the Czech Republic, our economists look for a modest increase in the July unemployment rate due to seasonal factors (i.e. graduates entering the labour market). Don't expect any negative effect on the Czech koruna as the currency is supported by the hawkish central bank and its signalling of a front-loaded hiking cycle. EUR/CZK to stay around the 25.60 level, with modest downside risks.

HUF: With HUF rebounding, rising CPI should have a less detrimental effect

In Hungary, our economists look for headline CPI to accelerate to 3.3% year-on-year, reaching a new five-year peak, on the back of a jump in fuel prices. We look for a rather muted reaction in the euro/Hungarian forint as: (a) the CPI reading is unlikely to change the inherently dovish central bank stance; (b) with EUR/HUF back at 320 (from 330 in early July), the current level of the cross does not pose urgent pro-inflationary risks. Today's rise in CPI should therefore not lead to a panic. Were EUR/HUF at the 330 level, the above target CPI coupled with non-reacting National Bank of Hungary would be a negative for the forint. But the current HUF level gives the NBH some breathing room to look through the higher July CPI number.

NZD: Central bank to reiterate steady rates

While we and the consensus look for no change from New Zealand's central bank (RBNZ) today, the focus will be on its forward policy rate path - which tentatively shows a rate hike in late 2019. The 2Q employment data has provided the RBNZ with little need to deviate from this path and talk up rate hike prospects. However, one part of the RBNZ's dual-mandate element has been met - with the 4.5% unemployment rate indicative of the economy being close to 'maximum sustainable employment. A slightly more dovish RBNZ than markets anticipate could see NZD/USD breaching the 0.6700 level.