

## Stepping up the trade war game

A light data calendar will mean markets remain stuck in a 'trade war trap' this week. The key event for the pound will be the Bank of England on Thursday



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### USD: Stepping up the trade war game

The US decision to impose tariffs on China and the Chinese threat of a retaliation in equal measure (China already announced tariffs on US car and agricultural exporters) means that the markets should remain stuck in a 'trade war trap' and lack any clear direction, with Asian FX to remain the emerging markets FX underperformer today. With the June FOMC meeting behind us and the lack of meaningful US data points this week, the key driving force for the USD crosses will be risk sentiment tied to the rising / falling (likely the former) probability of escalating trade wars.

### EUR: Calm after the storm

Following the close to three figure decline in EUR/USD after the European Central Bank meeting last week, we expect the cross to stabilise as (a) the bulk of the adjustment in response to the dovish interest rate forward rate guidance is likely behind us (the market is now pricing 10 basis point deposit hike only by the very end of 2019 - which we see as overdone on the dovish side) and; (b) EUR/USD trades with a persistent 3% risk premium (vs its short term fair value of 1.20). With the data calendar rather light both in the US and eurozone, there seems to be limited potential for a

more pronounced EUR/USD move. As it's only a few days since the ECB meeting, we don't expect today's remarks by President Mario Draghi at the Sintra conference to have a material market-moving impact and expect it to be rather muted compared to the Draghi's famous Sintra speech last year. Rather, it is German politics and the risk of a coalition break-up that is the key risk to the euro this week.

## **GBP: BoE won't provide a major catalyst for GBP price action this week**

The key event of the week for the pound is the Bank of England meeting this Thursday. We expect the GBP price action to be rather muted both going into the meeting and after, given the likely vague policy signal in the post-meeting statement. This means that GBP should be largely unaffected. GBP/USD to stay in the 1.3130-1.3450 range this week.

## **PLN: Solid wage data unlikely to boost zloty**

In Poland, the labour market data should show another employment increase with wage growth close to 7% year-on-year. But with wages not really spilling over into CPI inflation, inflation staying well below the 2.5% target and the hike-averse forward rate guidance of the central bank (NBP), solid wage data should have a limited impact on the Polish zloty, as this is unlikely to change the NBP's stance. With the impact on PLN muted, it will likely take a stabilisation in general risk appetite and higher EUR/USD for the EUR/PLN to re-start a more pronounced and lasting depreciation trend.