

UK June CPI to point to an August hike

UK inflation will likely be higher today due to rising oil prices, keeping the Bank of England on track for an August rate hike. Meanwhile, Fed Chair Jay Powell gets set for another day of testimony, this time to the House. We don't expect the message of gradual policy normalisation to change, suggesting downside risks to the US dollar are limited



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GBP: June CPI to support the case for August BoE hike

Our economists expect higher headline inflation (2.6% year on year vs 2.4% previous) due to the increase in petrol prices (which should keep headline inflation elevated in coming months). Core CPI should remain unchanged at 2.1% YoY with the risk of it falling to 2.0% (as the sterling effect on core CPI is fading). While the elevated headline CPI, coupled with solid UK data, point to an August rate hike as being more likely, the fact that the hike is already priced in with an 80% probability suggests a limited positive impact on the pound. This is particularly the case in light of the rising political uncertainty (as per the vote overnight). Expect EUR/GBP to stay below the 0.8900 level today.

USD: The Fed sticking to the script

Fed Chair Jay Powell's testimony to the Senate Finance Committee yesterday reinforced the status quo, with Powell sticking to the gradualist approach to policy normalisation and not putting too

much emphasis on the escalation of trade wars. This suggests limited near-term downside risks to the US dollar, though we acknowledge that with a fair degree of tightening priced in, Fed policy should not be an active driver for more material dollar gains. Rather, the potential upside is more likely to be associated with the escalation of trade wars, particularly concentrated against emerging market FX. As for today, we don't expect Powell's message during the second day of hearings (today in the House) to change.

EUR: In limbo

We look for rather limited and range bound EUR/USD price action today. The final reading of the eurozone CPI should confirm that inflation hit the ECB 2% target in June. Yet given that the ECB delivered dovish forward rate guidance during the June policy meeting, the data should have a limited effect on the euro in coming weeks.

ZAR: Inflation won't affect the SARB outlook and the ZAR

With South Africa's CPI expected to increase only modestly (consensus 4.8% YoY vs 4.4% previous) and remain comfortably within the 3-6% tolerance band, the reading should have a limited impact on the SARB policy stance and thus the South African rand (ZAR). On the former, market consensus firmly looks for no change in interest rates tomorrow, further underscoring the low impact potential of the today's CPI reading on ZAR. Rather, it is the external environment that remains the main driver of USD/ZAR at this point.