UK retail sales to have limited impact on pound

We expect a modest decline in June UK retail sales but the impact on sterling will likely be limited

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GBP: June retail sales to have a limited impact on sterling

Our economists look for a modest decline in June UK retail sales, but the outturn should be above consensus expectations. With sterling already taking a modest hit yesterday (EUR/GBP closed above 0.8900 for the first time since early March) following the unchanged UK June headline CPI (at 2.4% YoY) and the dip in core CPI below 2.0%, today's numbers should have a limited impact on GBP.

USD: No material concerns about the flattening UST curve

In the second day of his testimony to Congress, Federal Reserve Chair Jay Powell did not seem overly concerned about the flattening US Treasury yield curve and reiterated the current Fed mantra of a gradual policy tightening. The potential lower signalling power of the flattening yield curve as a predictor of a recession was also mentioned by previous Fed Chair Ben Bernanke, who pointed at specific distortions (such as regulatory changes and quantitative easing by other central banks which limit upside to the long end UST yields) mitigating its signalling power. As the Fed chair does not appear to be overly concerned about the flatter curve and the central bank signalling further interest rate increases, there is a limited potential for a near-term turnaround in

US dollar strength. The fairly supported USD, coupled with USD/CNY continuing to reach new multi-quarter highs by the day, suggests the tactical outlook for emerging markets FX is not overly optimistic.

EUR: Staying range bound

Lacking any catalyst for a more meaningful move (the data calendar is very calm this week), euro price action should remain muted, with EUR/USD hovering around the 1.1600 level today. We expect EUR/USD to stay above the 1.1550 level throughout the week, partly because the cross exhibits a persistent risk premium, in turn limiting the scale of its downside.

ZAR: SARB on hold and looking through the ZAR weakness

Following the lower than expected increase in South Africa June CPI yesterday (4.6% YoY vs 4.8% expected), the case for no change in interest rates in today's SARB meeting increased even further. We and the market look for interest rates to remain at 6.5% as inflation remains well within the target band. As a result, the central bank should look through the rand (ZAR) weakness of the past two months (ZAR was the second worst performing EM currency since the last SARB meeting in May, down more than 6% against the US dollar, though it has been recovering meaningfully so far this month). We look for a limited impact on ZAR from the central bank rate decision as no change is widely expected. Rather, the fragile risk environment should keep ZAR under modest pressure today.