US dollar recovery may be short lived

Today’s release of preliminary US durable goods orders for May could put a cap on the dollar's recovery

USD: Powell and Bullard lift the dollar

US Treasury yields slightly rebounded as the Federal Reserve’s Jerome Powell and James Bullard failed to match the market’s aggressively dovish expectations, prompting the dollar to recover from recent lows. While Powell’s remarks kept a more accommodative easing on the table, Bullard – arguably the most dovish member of the FOMC – downplayed the possibility of a 50 basis point cut in July. Data-wise, today’s release of preliminary Durable Goods Orders for the month of May could put a cap on the US dollar recovery, as our economists expect a contraction in the month-on-month reading. All in all, we expect the dollar to stabilise across the board today, with the DXY oscillating in the 96.10-96.40 band.

EUR: Will EUR/USD stay above the 200 MA?

The recent break above the 200-day moving average in EUR/USD tended to suggest further upside ahead. Today, it will be key to see whether the pair will hold above that threshold -
currently at 1.1345 – given the recent pause in the euro rally.

GBP: Options still unreactive to no-deal threat
Fears of a no-deal Brexit have been revamped after Boris Johnson pledged to honour the 31 October deadline even without a deal. While GBP spot has softened across the board, the option markets remain quite reluctant to price in a no-deal outcome. The 4m-5m segment of the volatility curve – which captures the October deadline - shows no particular spike and the average implied volatility across the curve is considerably lower when compared to late 2018.

Looking at today’s schedule, Bank of England officials – including Governor Mark Carney – will testify before the Parliament Treasury Committee. Any particular emphasis on the Brexit-related downside risks would likely add fuel to the current bearish mood on GBP and drive GBP/USD closer to the 1.2600 support.

CZK: Expect a wait-and-see approach from the CNB today
The Czech National Bank meets to set interest rates today. Despite slightly higher inflation and a weaker koruna than CNB forecasts, the market firmly believes that the CNB tightening cycle concluded with last month’s 25bp hike to 2.00% and that the next move will be a cut. However, our team sees the CNB on hold at 2.00% this year and next - although that should not prevent the 2-10 year CZK curve from flattening. In FX, we doubt the CZK holds onto current gains against the EUR – this is premised on our team’s baseline view of an escalating US-China trade war in 3Q19 and Washington placing tariffs on EU auto imports in 4Q19.
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