How oil could slow the dollar surge

It's too early to say the dollar surge has peaked – but lower oil prices could take some of the steam out of it

USD: Lower oil knocks the top off US rates?

When oil was pushing higher in April and May (as fears grew about the US pulling out of the Iran deal) it was common to hear that this was a dollar bullish development because of its impact on US rates. Here US rates, e.g. in the two- to three-year part of the curve, were rising in lock-step with crude on the view that if any central bank were to respond to this it would be the Federal Reserve. With OPEC+ seemingly close to an agreement on a 600,000 to 1 million barrel per day supply increase, it seems as though slightly lower oil prices might be just enough to knock the top off those shorter-dated US rates. It's early days, but two-year USD swap rates seem to be stalling just above 2.80%. Additionally, lower oil might also alleviate some of the pain for the most vulnerable emerging market nations (India and Turkey) – although of course, Trump's trade war remains the clear and present danger. It's too early to say this dollar surge has peaked – but at least lower oil prices should take some of the steam out of it. There's little in the US calendar today and we'd say DXY could consolidate in the 94.20-95.50 range, without a clear bias.

EUR: Some encouraging political news

EUR/USD survived another test of 1.1510 yesterday and may be enjoying some encouraging eurozone political news for a change. Finance ministers have agreed to extend the maturity on

Greek debt and even handed them the €4 billion of profit made on ECB purchases of Greek debt. Perhaps this is a sign of more unity in the face of the Trump onslaught? For today, we'll see the June flash PMIs for Germany, France and the eurozone. The eurozone economic surprise index has been flat-lining in severe disappointment territory. It's not clear there's any reason for optimism yet – but any upside surprises could build on early signs of euro stability. Above 1.1640/50 EUR/USD could see 1.1720.

GBP: Haldane's switch helps GBP

Bank of England Chief Economist Andy Haldane's switch to voting for a rate hike has marginally increased the chances of an August hike. However, the move caused barely a ripple across the Short-Sterling Curve (futures contracts just sold off one to three ticks), which isn't a surprise given the amount of Brexit uncertainty out there. EUR/GBP still trapped in a 0.8720-0.8800 range. Cable could edge to 1.3320/40.

TRY: Turkey goes to the polls on Sunday

Sunday sees Turkish Presidential and Parliamentary elections, with an uncertain outcome. It's not clear whether President Recep Erdogan will get the 50%+1 support to win outright in the first round (second round 8 July) according to the polls. The parliamentary vote is also closer, with the People's Alliance (AKP and MHP) uncertain of securing a simple majority of 301 of the 600 seats up for grabs. It's fair to say the Turkish investment environment is uncertain at this stage, where an AKP win in both elections and some market-friendly decision-making (300bp hike in May and another 125bp this month are good signals) could be seen as positive for the Turkish lira – though the market will wait to hear more about policy before chasing TRY too strongly. Cohabitation, or Erdogan as president and the Nation Alliance winning a majority in parliament, could lead to a lot more uncertainty. The break-even on a USD/TRY straddle for Monday is 2000 TRY pips.

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