

## USD: Playing it safe

President Trump's meeting with Kim Jong Un is a welcome step. But the US trade war is a far larger preoccupation right now



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### USD: With a lot of uncertainty this summer, high yields keep dollar cash attractive

President Trump's historic meeting with Kim Jong Un is a welcome step towards peace on the Korean peninsula and, hopefully, reduces one of the market's major geopolitical risks. However, Trump's war with trade blocs counting two billion plus inhabitants is a far larger preoccupation right now. Until investors see some softening in Washington's trade stance, defensive positions will be taken. With 3-month US Treasury Bills, typically the safest of instruments, paying close to 2%, the dollar is enjoying its safe-haven status this summer. For today, the focus will be on US CPI, where 0.2% month on month increases in headline and core will send year over year rates to 2.8% and 2.2%, respectively. Any upside surprises will only add to fears that the Fed adopts a more [hawkish stance tomorrow](#) and probably triggers yield curve flattening and dollar strength.

### EUR: Market expects a big week

One-week implied euro volatility is now over 10% and suggests investors see substantial risk around this week's Federal Reserve and European Central Bank meetings. As per our [ECB crib sheet](#) we see some upside risks to the euro this week. But in a strong dollar environment, EUR/USD might

struggle to make it much above the 1.1850 area.

## GBP: PM May's government faces major test in parliament

After the release of wage and jobs data early today, the UK focus will shift to parliament. Here the lower house votes on a set of proposed amendments to the EU withdrawal bill. Today's vote is on whether parliament should get a 'meaningful' vote on the final bill. The Conservatives are desperate for party unity, (i.e. that the Remainers don't vote against the government), but the vote will be close. Were the government to lose the vote it may be a double-edged sword for the pound. The positives are that a softer Brexit is more likely. The negatives would be that May's position would be weakened and prompt speculation over a leadership challenge or even early elections. With the US dollar and euro staying supported into central bank meetings, the [GBP outlook is highly uncertain](#).

## HUF: NBH losing its grip

Hungarian assets are under pressure and as Petr Krpata and Peter Virovacz highlighted in a report [yesterday](#), much further weakness in the Hungarian forint (HUF) will raise serious questions as to whether the central bank (NBH) can credibly hold onto its ultra-dovish policy. They estimate that should EUR/HUF break and stay above the 330 area, Hungarian CPI (into 2019) would push above the 4% threshold of the NBH's policy corridor and likely prompt a less dovish policy. With HUF funding costs the cheapest in CE4 space, we see scope for HUF to particularly underperform the Romania leu.

### Author

#### Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)