

USD: Some pause in the dovish Fed pricing

The US-Mexico deal has tamed expectations of Fed easing but the current defensive stance in markets is unlikely to change significantly until we get some clarity on the US-China trade deal later this month



USD: Some pause in dovish Fed pricing

The US dollar remains bid as the deal with Mexico has led the market to limit further dovish pricing of the Fed, taming expectations of an imminent rate cut, translating into higher US Treasury yields and, in turn, supporting the dollar. Still, investors are unlikely to change the current defensive / easing pricing of the Fed before we get some clarity on the US-China trade deal later this month (with the G20 meeting on 28-29 June being a focus). Stable US Treasury rates for now suggest the dollar downside vs G10 FX will be limited this week, with higher beta FX (New Zealand dollar, Australian dollar or Swedish krona) exposed to potential weaker global data, which for now might not be offset by the more dovish pricing of the Fed (in contrast to the past two weeks).

➔ EUR: Stable EUR/USD

The EUR/USD rise stalled after the US-Mexico deal. Given the already dovish market pricing of the Fed and the lack of potential euro-positive catalysts this week (if anything, we see risks of the European Central Bank turning more dovish in coming months) EUR/USD upside is fairly limited from here.

⬇ GBP: Data and Brexit uncertainty not helping sterling much

UK job growth is set to slow further and we should also see a modest deceleration in the pace of wage growth. Both still remain solid but given the Brexit uncertainty, these numbers are unlikely to affect the Bank of England stance, particularly after the dismal April UK GDP published yesterday. With the Conservative leadership battle set to intensify in coming weeks (10 candidates have been chosen to start the run-off procedure), we expect sterling to remain under pressure and EUR/GBP to converge towards the 0.90 level.

⬇ CZK: Still above-target inflation won't cause the CNB to hike

Our economists look for a modest deceleration in May Czech CPI to 2.7% YoY from 2.8% previously, largely due to the base effect. While inflation remains above the 2% target and some Czech data has surprised on the upside recently, global uncertainty, as well as the projected return of CPI towards the target over the relevant monetary policy horizon, mean there is no need for the Czech National Bank to tighten policy. With the rise in EUR/USD stalling and limited scope of near-term dovish re-pricing of the Fed after the last minute Mexico-US deal, we expect EUR/CZK to remain above the 25.60 level.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.