

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



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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

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