

USD: The long goodbye

The case for an early Fed rate cut weakened slightly on Friday, buying the dollar some time. But the market is likely to reassess the Fed's path once again on Wednesday



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➔ USD: Dollar performs well, but look out for April TIC data tonight

The case for an early Fed rate cut weakened slightly on Friday after strong retail sales and industrial production data saw the Atlanta Fed's GDPNow reading of US 2Q GDP jump to a respectable 2.1%. This has bought the dollar some time, but only until the market re-assesses the Fed trajectory after the FOMC statement on Wednesday evening. The market is aggressively pricing the first Fed rate cut in July and with the stock market having bounced on this prospect, we doubt the central bank is in the mood to challenge it. We therefore doubt investors want to chase the dollar too much higher through the early part of this week. Also, this time tomorrow we may be discussing the release of the April TIC data (out at 2200CET tonight). Any signs that China is accelerating its sales of US Treasuries (China currently holds US\$1.12 trillion) could add to some dollar downside.



EUR: ECB's Sintra forum starts today

Market-based measures of inflation expectations are collapsing across the board (EUR 5Y5Y inflation swap now a mere 1.13%) and arguably the European Central Bank has a more compelling case than the Fed for early easing. It is against this backdrop that ECB President Mario Draghi opens the ECB's Sintra forum tonight at 19CET, although his main speech is at 10CET tomorrow. Despite what should be a softer dollar environment this summer, there are enough euro negatives out there (ECB easing, trade wars, Italy & Brexit to name a few) to prevent EUR/USD breaking out of a 1.10-1.15 range this year – please see all our latest forecasts in the [June edition of FX talking](#). For today, we see a narrow 1.1180-1.1250 range.

↓ GBP: Forecasts lowered

In this month's forecast round, we are cutting our GBP profile and now see cable trading to 1.22 and EUR/GBP to 0.92 this autumn. Of the [many alternative scenarios available](#), our team attaches the highest probability to early elections – perhaps in December – which will unnerve investors. We also noted on Friday that Airbus said it is reviewing its production facilities across Europe in an effort to cut costs. Airbus is a large (direct and indirect) employer in the UK and any suggestion that it could move its wing production operation out of the UK would be a major blow to the UK manufacturing sector. Cable to stay soft into Thursday's Bank of England meeting, support at 1.2550.

↑ CHF: Fresh ECB easing will keep EUR/CHF pressured

The ECB's Sintra forum in the past has seen major policy announcements and it would not be a surprise to hear a dovish surprise from President Draghi. The prospect of fresh quantitative easing could add intense pressure to EUR/CHF – where the Swiss National Bank abandoned the EUR/CHF 1.20 floor in January 2015 ahead of forthcoming ECB QE.

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