

EUR: cutting me slowly

Asia overnight

Yet again, another very quiet Asian session for G10 FX, which has on the whole seen the USD consolidate its losses of yesterday. EUR/USD has held up above 1.14 going into today's ECB meeting, while USD/JPY has steadied around the 143 mark. The JPY has not really been moved by a somewhat soft 30Y JGB auction overnight (bid-to-cover ratio below its one-year average), although long-dated JGB yields have rather fallen in the aftermath. The FX Antipodeans could not get a lift from an in-line Caixin services PMI for May out of China, while the AUD was unmoved by solid households' consumption and heavily distorted external trade figures for April domestically.

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Ahead of the June ECB meeting, Eurozone rates investors are expecting the Governing Council to cut rates by 25bp to 2.00%. The markets are further pricing in two additional rate cuts by the end of the year and expect additional easing in 2026, thus expecting the ECB to push its policy deeper into accommodative territory. Next to the policy rate decision, therefore, we expect that the updated ECB forward guidance and staff economic projections would attract considerable attention. In that, we think the ECB will lower its inflation and growth forecasts, in part due to the recent aggressive EUR appreciation. Notwithstanding that, however, our ECB strategist expects that the bank's updated forward guidance would remain rather vague about the prospect for further easing.

Turning to the FX market reaction, we believe that the EUR will take its cue from the price action in Eurozone rates markets. We think that while the updated economic projections could lend support to the current dovish market expectations, the ECB's vague forward guidance could discourage investors from frontloading their rate cut bets. Given that the EUR trades at a significant premium when compared to its relative rate disadvantage vs the USD and GBP for example, it could struggle to perform in the wake of the ECB meeting.

We also expect FX investors to focus on any comments by ECB President Christine Lagarde about the future role of the EUR as a reserve currency. Key for market participants would be any indications about how the Governing Council may balance the benefits from growing international demand for the EUR (eg, more favourable financing conditions in the Eurozone) with the negatives (a blow to the Eurozone's international competitiveness and persistent disinflation). Any signals by President Christine Lagarde that the prospects for potential sustained EUR gains could ultimately make the ECB more dovish and keep the EUR-bulls sidelined.

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JPY: bonded?

Despite strong Tokyo inflation data and BoJ Governor Kazuo Ueda keeping up his hawkish stance, Japan's rates market is yet to fully discount another 25bp hike by the BoJ this year. The caveats being placed by Ueda on further rate hikes are not only that there is further improvement in the economy, but that the BoJ will be taking into account market volatility (especially the bond market) as well as global growth and the state of US President Donald Trump's trade war. So JPY traders will continue to watch the Trump tariff saga, but also global bond markets.

Last week's 40Y JGB auction came out on the weak side recording its lowest bid-to-cover ratio since July last year. This outcome gave the JPY only a modest boost, however, as new news on the tariff front quickly overtook concerns about the global bond market. The slide in JGBs has also been abated by the MoF saying it will look

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Bloomberg FX forecast ranking
No.1 for G10 FX forecast accuracy in Q1 2025

EUR/USD No.1	EUR/GBP No.1	EUR/CHF No.1	GBP/USD No.2
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Q1 2025



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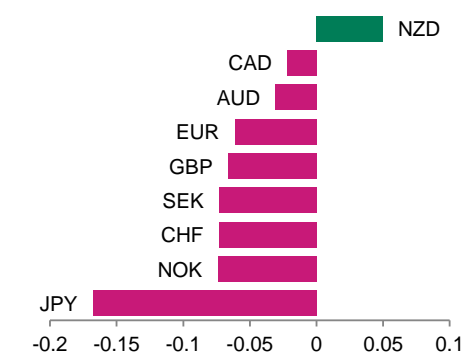
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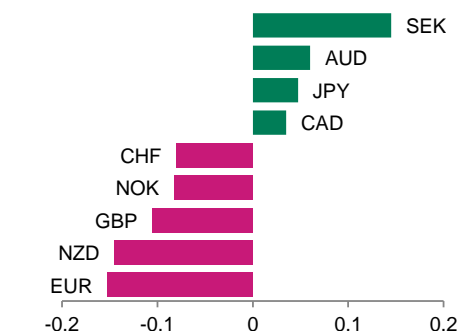
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Overnight returns (% , vs USD)



Source: Bloomberg, Crédit Agricole CIB

1M implied volatility daily change (net, vs USD)



Source: Bloomberg, Crédit Agricole CIB

to limit super-long end issuance and the BoJ saying it is watching yields closely, with recent media reports stressing that QT tapering could be slowed from next fiscal year. The 30Y JGB auction on Thursday will still garner investors' attention; although a better-covered 10Y JGB auction on Tuesday possibly calmed global bond market's nerves. Japan labour earnings data, while less important for the JPY, will still be watched by investors given that a condition by Ueda of further rate hikes is strengthening wages growth and especially positive real wages growth. The market consensus looks for further acceleration in nominal and real wages growth, but for the latter to remain in negative territory.

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SEK: upturn stalled?

The SEK remains the top G10 FX performer YTD, even though the SEK outperformance has rather taken a break since the start of Q225. Of special note, EUR/SEK has quietly consolidated within a narrow 10.80-11.00 range for the best part of the past two months, with the SEK not really capitalising on the EUR/USD's attempts to break higher. The SEK may have been somewhat held back by the fact that the Riksbank has re-opened the door to possible easing later this year in light of more acute threats to the global outlook, while Swedish inflation has generally proved frothier than expected since the start of year. This morning, Statistics Sweden is due to publish the flash CPIF estimates for May, with the economists surveyed by Bloomberg looking for a pick-up in headline and a cooling in core. In both cases, we may have already seen the peak for this year, although ultimately inflation pressures could remain above 2% over that period. Therefore, it would require a significant downside surprise today to eventually strengthen the prospects of renewed Riksbank cuts, as in a context of interest rates roughly at par with the EUR, any further SEK gains would in our view then rely on Sweden securing back some macro outperformance over the Eurozone in the long run.

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Open trade recommendations

	Date	Opening Time	Direction	Entry	Target	Stop	Last/ Close	P&L*
USD/NZD (FX Positioning Model)	18/12/2023	09:00 BST	SELL	0.6021	0.5780	0.6141	0.6030	-0.14%
EUR/USD (FAST FX Model)	02/06/2025	09:00 BST	SELL	1.1426	1.1043	1.1803	1.1410	0.08%
USD/CAD (FAST FX Model)	02/06/2025	09:00 BST	BUY	1.3680	1.3932	1.3447	1.3681	0.03%

*Returns calculated as %VaR with 2% risk allocation per trade

Underlying	Date	Opening Time	Option Type	Strike	Barrier	Spot Entry	Cost	P&L (Portfolio terms)
EURGBP	08/04/2025	15:30 BST	3M put spread	0.845/0.83	-	0.8540	0.35%	1.11%
EURAUD	13/05/2025	11:30 BST	3M put spread	1.70/1.65	-	1.7320	0.53%	-1.09%

*Returns calculated as %VaR with 2% risk allocation per trade

Key events

GMT	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	SW	CPIF YoY	May			2.30%	
07:00	GE	Factory Orders MoM	Apr			3.60%	
07:00	SW	C/A Bal	1Q			111.90 B	
08:45	UK	BOE's Greene Speaks					
09:00	IT	Retail Sales YoY	Apr			-2.75%	
09:30	UK	BOE's Breeden Speaks					
09:30	UK	Construction PMI	May			46.60	
10:00	EZ	PPI	Apr			1.90%	
12:30	US	Challenger Job Cuts	May			62.70%	
13:15	EZ	ECB Deposit Rate	Jun			2.25%	
13:30	US	Trade Balance	Apr		-117.30 B	-140.50 B	
13:30	US	Productivity	1Q			-0.80%	
13:30	US	Unit Labor Costs	1Q			5.70%	
13:45	EZ	ECB President Christine Lagarde Holds Press Conference					
15:00	CA	Ivey PMI	May			47.90	
17:00	US	Fed's Kugler Speaks on Economic Outlook, Policy					
18:30	US	Fed's Harker Speaks on Economic Outlook					
18:30	US	Fed's Schmid Speaks on Banking Policy					
00:30	JN	House Cons	Apr			2.10%	
06:00	JN	Leading Index	Apr			108.10	

Source: Bloomberg, Crédit Agricole CIB

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