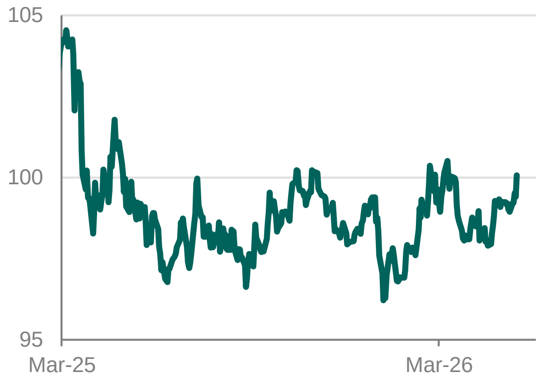
The Week Ahead FX

- Strong labour market data support the greenback – inflation data are now in focus.
- ECB rate hike is unlikely to benefit the EUR.
- BoC is set to keep rates on hold – rate hikes are now on the agenda.

Chart 1: US Dollar index rose above 100

DXY Index



Sources: Bloomberg L.P., ICE, as at June 2026

Chart 2: US inflation surprises have risen

US Inflation surprise Index

Sources: Bloomberg L.P., ICE, as at June 2026

USD – What crisis?

Last week, the US Dollar Index (DXY) traded at levels of around 99.00 – unchanged from the previous week. US labour market data were overwhelmingly constructive. Both ADP and Non-Farm Payroll (NFP) data printed well above expectations. The NFP data also showed a large positive revision to the April data, showing that the labour market has not just stabilised, but is growing robustly. The data go some way to discrediting the ‘no hire, no fire’ narrative regarding labour market dynamics.

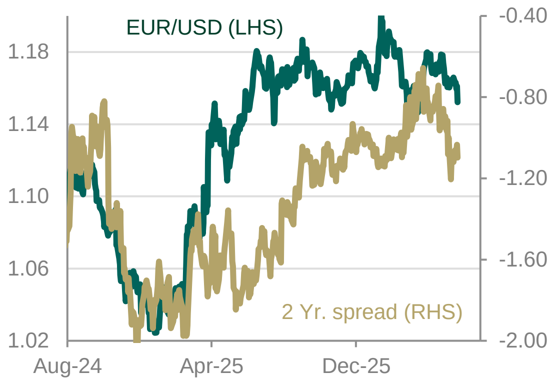
EUR/USD subsequently fell to levels of around 1.1580 following the publication of the data – and we note that significant upside surprises to NFP data tend to have longstanding positive effects on the USD over subsequent weeks – giving a clear downside directional bias to EUR/USD in the near term.

The main data releases over the coming week will be the publication of May CPI data – which are expected to print at 4.2% y/y (headline) and 2.9% y/y (core). The publication of the month-on-month data will be key, because if the data print above the expected 0.5% m/m, it will indicate a rise in underlying contemporaneous inflation pressures – giving upside risks for the USD.

The data will inform the FOMC meeting (16/17 June), and we note that this will be Fed Chair Warsh’s first press conference. Investors can anticipate less forward guidance in the statement (or none at all), giving upside risks for yields and the greenback. Overall, US economic data have raised the bar substantially towards a resumption of rate cuts, giving the greenback room to the upside against the likes of EUR, JPY and other low yielders (SEK etc.).

Chart 3: EUR/USD fell towards 1.15

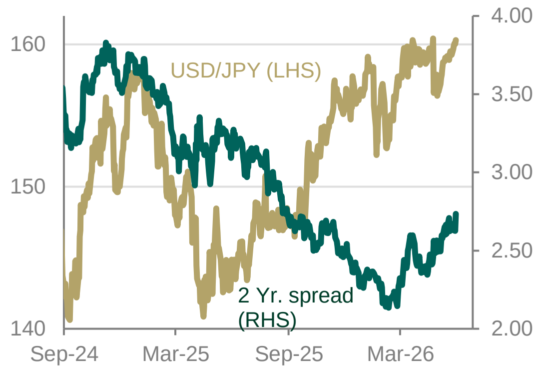
EUR/USD spot, 2 Yr. swap spread, %



Sources: Bloomberg L.P., as at June 2026

Chart 4: USD/JPY is retesting 160

USD/JPY spot, 2 Yr. yield spread, %



Sources: Bloomberg L.P., as at June 2026

EUR – ECB is set to raise rates

The key event risk for the EUR will be the European Central Bank (ECB) meeting on Thursday. Overnight index swaps (OIS) have priced in a 25 bp deposit rate hike with a 97% probability – meaning that the rate hike is a done deal from a market perspective.

Headline inflation rose to 3.2% y/y in May, with the core print coming in at 2.5% y/y. The m/m print was only 0.1% - giving little evidence of significant underlying inflation pressures. ECB speakers have been on the hawkish side in recent weeks, with Governing Council member Schnabel pointing to potential rises to levels of 4% by year-end. We anticipate that the ECB's commentary will be on the cautiously hawkish side – signalling that further rate hikes may be feasible, albeit that this should be contingent on the eventual re-opening of the Straits of Hormuz.

We note that investors hold a negligible long EUR position – and we do not anticipate that this will change in the near term. Historically, ECB rate hikes during supply shocks have rarely resulted in EUR appreciation, and given the material slowing in eurozone growth dynamics, we do not believe that this time will be any different. Overall, we anticipate that there are downside risks to EUR/USD's recent tight range trading environment.

CAD – Bank of Canada rate decision

Last week, USD/CAD traded up to levels of around 1.39. The up move reflected mostly a sustained USD bid along with a modest amount of idiosyncratic CAD weakness. Data over the week was broadly constructive, with a stronger than anticipated May manufacturing PMI, showing solid expansion, driven by demand. May payrolls expanded the most since December 2024, resulting in markets moving to price in a 25 bp Bank of Canada (BoC) rate hike by year-end.

BoC's MPC will meet this week and it is widely expected to keep rates on hold at 2.25%. BoC speakers recently emphasised looking through the short-term inflationary impacts of the energy shock. Risks will come from the tone of the BoC's communication – and we anticipate that it will maintain a more cautious and data dependant stance – giving only limited possibly for a material CAD rally in the near term.

JPY – USD/JPY trades above 160

Last week, USD/JPY rose to levels of above 160, reflecting USD appreciation. The up move did not elicit a strong response from the authorities in Tokyo. The rise in US front-end yields means that another FX intervention would achieve much the same results as before – transitory JPY appreciation, and a loss of

FX reserves. In the current environment of higher external yields, FX interventions have only limited effectiveness – in simple terms, the juice is not worth the squeeze.

Labour cash earnings data for April printed well above expectations, showing that real cash earnings are now positive. This gives further reasons for the Bank of Japan (BoJ) to raise rates later this month, which has been priced in – however, we note terminal BoJ rate expectations have risen, meaning that markets are now veering towards a BoJ final interest rate of around 1.50%. Overall, we continue to anticipate that USD/JPY will trade with only modest downside risks, until the USD leg of the trade weakens more directionally – which does not appear to be an imminent issue.

TRY – CBRT set to keep rates on hold

Last week, USD/TRY edged higher to levels of 46.00. Data over the week revealed that the Central Bank of the Republic of Turkey (CBRT) sold around USD 9.2 billion in reserves to stabilise the currency. Turkish May CPI accelerated faster than expectations at 1.71% m/m and 32.61% y/y, which remains well above CBRT's forecast of 26% by year end. The higher inflation profile is a fundamental driver of TRY weakness, alongside the widening in the current account deficit.

CBRT will meet to decide interest rates this week and market expectations are for rates to remain on hold at 37%. There is a possibility of a rate hike – however, CBRT is likely reluctant to do so given growth impacts from higher energy prices. We anticipate that the current account deficit has room to widen to levels of around 3% of GDP in the coming quarters, and this in turn will raise depreciation pressure on the lira. Overall, we maintain a strong expectation of higher USD/TRY exchange rates over time, reflecting high levels of trend inflation and the lagged impact of high inflation prints year-to-date.

CNY – Trade balance in focus

Last week, USD/CNY traded at levels of around 6.77. We note that USD/CNY trades well below the People's Bank of China's (PBoC) daily fixing level – indicating solid underlying demand for CNY. The coming week's main event risk should be the publication of import and export data, which should illustrate a still enormous trade surplus. The large trade surplus is an indication of the huge underlying demand for CNY. Interestingly, the large trade surplus did not elicit much criticism during the Xi – Trump summit several weeks ago. The US authorities are clearly aware that PBoC has continued to manage CNY's appreciation trend and likely anticipate that this will continue. We maintain our constructive stance on CNY, anticipating a USD/CNY decline to levels of 6.70 by year-end, with risks skewed firmly to the downside.

Our FX Forecasts

	EUR/USD	GBP/USD	EUR/GBP	USD/JPY	USD/CHF	EUR/CHF	USD/CNY	AUD/USD	NZD/USD	USD/CAD	EUR/SEK	EUR/NOK
Jun -26	1.14	1.30	0.88	160	0.80	0.91	6.80	0.72	0.59	1.40	11.20	10.80
Sep -26	1.15	1.31	0.88	160	0.79	0.91	6.75	0.73	0.60	1.38	11.00	10.80
Dec-26	1.16	1.30	0.90	158	0.78	0.90	6.70	0.74	0.62	1.36	10.80	10.60
Mar-27	1.18	1.30	0.90	156	0.77	0.89	6.65	0.76	0.64	1.36	10.60	10.40

Sources: UBP SA, as at June 2026

	USD/TRY	USD/ZAR	USD/RUB	USD/ILS	USD/MXN	USD/BRL	USD/INR	USD/KRW	USD/TWD	USD/HKD	USD/SGD
Jun -26	48.00	16.50	85	3.00	17.50	5.15	92.50	1450	30.50	7.85	1.27
Sep -26	50.00	16.65	85	3.00	17.25	5.25	93.00	1425	30.00	7.85	1.26
Dec-26	52.00	16.80	85	3.10	17.00	5.35	93.50	1400	30.00	7.85	1.25
Mar-27	54.00	17.00	85	3.15	16.75	5.50	94.00	1400	29.50	7.85	1.24

Sources: UBP SA, as at June 2026

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