

FX: ECB calm after the March storm

We're not expecting any fireworks from today's ECB meeting



Source: Andrej Klizan

➔ USD: Core CPI to remain modestly above the Fed's target

The focus today is on the US March CPI. Our economists expect energy prices to be a major contributor to the rise in consumer price inflation. Core CPI should remain at 2.1%, broadly in line with the Federal Reserve's medium-term target of 2.0%. This should limit any further dovish repricing of the Fed's rate path and given the attractive interest rate differential that the US dollar currently enjoys, the currency should retain support, particularly against low yielding G10 FX such as the euro, Japanese yen and Swiss franc.

➔ EUR: ECB calm after the March storm

As per our [ECB Preview](#), our economists are looking for a rather calm meeting (vs the eventful March meeting). We don't expect the central bank to announce further details of the built-in incentives for the next Targeted Longer-Term Refinancing Operations (TLTROs) or of any tiering system. The ECB will continue its balancing act between demonstrating that it is not running out of ammunition while still keeping its cards close to its chest. A tiering system might be one of the things that policymakers are looking at but it would probably only be announced if the economy has not started to rebound by June. This suggests a fairly modest reaction in EUR crosses today.

👆 **GBP: Moving towards “flexextension”**

At the summit of EU leaders today, the extension of Article 50 will be discussed. We expect the EU to offer a “flexextension” to the UK (extension of nine to 12 months with an option to exit earlier if UK politicians reach an agreement on Brexit) but with potential conditions attached (so the UK cannot block regular EU business). A formal extension of Article 50 should be marginally positive for sterling. However, with markets largely expecting such an outcome, the positive effect on GBP should be fairly limited. This is particularly the case given the increased probability of early elections due to the dissatisfaction of Conservative party members with the deal.

👆 **CZK: Rising CPI and possibility of May CNB hike to support the koruna**

Our economists are looking for an acceleration in Czech March CPI to 2.9%, partially due to higher fuel prices and the potential increase in food prices. With a solid reading on February Czech Industrial production and prices being close to the upper inflation tolerance band of 3%, today's inflation could lead to increased speculation about a May CNB rate hike and be a short-term positive for the koruna. EUR/CZK likely to test the 26.00 level today.

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