

## FX Daily: Forget the old central bank currency link

A hawkish Powell failed to lift the dollar yesterday, as the currency market remains heavily focused on risk asset relative performance. The euro remains in a prime position to benefit from the dollar's idiosyncratic losses, and today's widely expected 25bp rate cut by the ECB should not prevent another leg higher to 1.15 in EUR/USD, in our view



Fed Chair Jerome Powell addresses the Economic Club of Chicago on 16 April 2025

We have published our monthly FX update – [FX Talking: "You wanted a weaker dollar"](#)

The next FX Daily will be published on Tuesday, 22 April.

### 📌 USD: Powell rejects rescuer role

Fed Chair Jerome Powell delivered the clearest message since “liberation day” yesterday, which was unquestionably hawkish. Markets had leaned towards the Trump-backed narrative that the

Fed would come to the rescue with rate cuts despite inflation uncertainty. Powell said he expects higher inflation and a weaker jobs market due to tariffs, but that the Fed is primarily focused on the inflation aspect. With Trump having shown greater tolerance to market turmoil than anticipated and Powell now refusing to throw a lifeline, equities remain vulnerable.

In normal market conditions, Powell's hawkishness would have triggered a positive USD response. But the greenback is still responding to the narrative of relative US assets underperformance and growth concerns, which are arguably being compounded by a hawkish Fed. Interestingly, front-end USD swap rates didn't move higher on Powell's comments, and a cut in June is still more than 60% priced into the OIS curve. This is again a signal of firmly pessimistic growth expectations in the US, which are ultimately seen as leading to Fed easing.

Despite plenty of indications that the dollar is oversold and undervalued, we don't see a catalyst for a respite today. Should US equities underperform again, DXY should extend its drop below 99.0. Markets will keep a close eye on any hints that jobless claims have risen in the week after "liberation day". Housing figures are also published today and expected to come in soft.

*Francesco Pesole*

## 📈 EUR: Consensus cut, no guidance by ECB

We expect a 25bp rate cut by the ECB today. Consensus is unanimous, and markets are fully pricing in the move, so the impact on the euro may prove limited. As discussed in our [ECB Cheat Sheet](#), we don't expect much in terms of guidance by the ECB, which could echo yesterday's [Bank of Canada communication](#): openly acknowledge policymakers are as confused as markets on the tariff impact, and they are not able to offer any forward-looking view at this stage.

In the current state of things, the FX market is not looking much at short-term rate differentials. If it did, EUR/USD should be trading well below 1.10. While we cannot exclude the possibility that markets can take the opportunity of an ECB cut to take profit in crowded EUR longs, the news from the US is still hitting the dollar, and the highly liquid euro remains in a prime position to benefit from the rotation.

We retain a tactical target at 1.15 in EUR/USD, with risks of even larger gains. By the end of the quarter, we expect selling pressure on USD to have moderated, and we target 1.14, followed by a dollar recovery in the third quarter. All our latest FX forecasts (updated yesterday) can be found [here](#).

*Francesco Pesole*

## 📈 CEE: Trying to disconnect from the global mess

The CEE region remains in sleepy mode this week, trying to disconnect from the global noise. This morning, we saw industrial production data in Romania showing some improvement from a weaker February. In Hungary, labour market numbers will be released, including wages remaining in double digits. CEE currencies will be looking to the ECB meeting today, but that should confirm the current market stance and not show much change for CEE.

Still, we believe the ECB will be an important benchmark for CEE central banks as they face US tariffs and the deteriorating economic outlook. Although the situation will not change much in the short term for the National Bank of Poland and the National Bank of Hungary, with attention on

the local story, for the Czech National Bank, communication may be crucial on how to approach the May meeting. Our economists still expect a rate cut in May, but the picture is very foggy, and we are on the hawkish side versus market pricing. In general, a higher EUR/USD is good news for CEE currencies and the ECB should be a non-event from a short-term market reaction. We are thus only slightly bullish on CEE currencies today.

*Frantisek Taborsky*

## TRY: The more hawkish, the more carry

The main event in the CEE region today is the Central Bank of Turkey meeting. This will be the first regular meeting since the March sell-off in the TRY market. In the interim meeting in March, the CBT not only raised the upper band of the interest rate corridor (O/N lending rate) to 46% but also turned it into the effective policy rate by tightening TRY liquidity, while keeping the policy rate (1-week repo rate) flat at 42.5%. These developments suggest that the CBT is likely to remain mute today.

Benign March inflation data, with an improvement in the underlying trend, will also lead the CBT to keep the policy rate unchanged rather than hike it. However, the CBT's daily balance sheet has, in recent days, shown a continuation of the pressure on the net FX position. Therefore, we do not rule out a further adjustment in the upper band. Overall, market expectations show unchanged rates, but the market would probably not be completely surprised if there is some rate tightening today.

USD/TRY remains basically unchanged at 38.000 since the spike in mid-March. In recent days, however, we have started to see the central bank again allowing the TRY to weaken slightly, but at a slower pace than before, leaving a still fat carry on the table. As we commented here after the March sell-off, we still like the TRY as a carry trade and it is the March move in the currency that gives the central bank the resolve to maintain only slow TRY depreciation and not allow additional inflationary pressures, keeping the currency attractive to investors and pushing against the outflows we have seen since the March move.

*Frantisek Taborsky*

### Author

#### **Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### **Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

#### **Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).