

FX Daily: 90-day trade negotiations to involve FX?

It's early days, but conditions in FX markets look like they're settling a little as the Easter holiday approaches. The dollar continues to trade on a weak footing, and we wonder whether currency policy will be on the table as Scott Bessent leads trade negotiations with Japan and South Korea. That's what a Mar-a-Lago blueprint might suggest



US Treasury Secretary Scott Bessent has been tasked with leading the trade negotiations with Japan and South Korea

➔ USD: Hard to sustain those levels of volatility

EUR/USD and USD/JPY briefly witnessed one week implied volatility trading at 20% late last week. That's extreme, and – barring a global financial crisis – those levels of volatility don't typically last for long. Thankfully, the financial plumbing system seems ok so far, and it's worth taking a quick look at what happened last week. I think it's fair, as most do, to call US tariff policy 'chaotic'. That continued over the weekend with the announcements of tariff exemptions on [some electronic exports from China](#) (worth around 20% of China's total exports to the US), only for those announcements to be described as temporary. The market is now bracing for Washington coming after the semiconductor sector and possibly the pharma sector as well this week.

Much was made of the breakdown in the traditionally positive correlation between US yields and the dollar, leading a few commentators to start describing the US as an 'emerging market'. There

have been a few, very rare periods over the past 30 years when US Treasury yields and the dollar have briefly diverged – normally at times of extreme stress. That seemed to be the case last week with heavy deleveraging in the US Treasury market, where the basis trade was probably being unwound. Let's see if we can find any data from the repo market in terms of heavy deleveraging here. We'll see how long that negative correlation between US yields and the dollar lasts; we suspect not long unless there is further major market dislocation.

But one theme that might develop further, and one that might be prompting the buy-side around the world to be raising the FX hedge ratios on their US investments, is this idea of a [Mar-a-Lago accord](#). If this is some kind of blueprint for how Washington rewires the global trading system, then after oppressive tariffs (check), Washington tries to secure agreements on stronger currencies from trading partners. US Treasury Secretary Scott Bessent has been tasked with leading the trade negotiations with Japan and South Korea. Will some kind of FX deal be involved to engineer a weaker USD/JPY and USD/KRW?

In terms of this week, expect markets to continue to bounce around on tariff headlines. US data should not actually be too bad. [March US retail sales](#) (Wednesday) could be quite strong as consumers front-loaded pre-tariff spending. Federal Reserve speakers will be closely watched as well, given that the central bank is giving few signs that it will be running to the rescue in terms of early rate cuts or Treasury market intervention. On that front, look out for speeches from one of our favourite Fed communicators, Christopher Waller, later today, as well as Chair Jerome Powell on Wednesday.

It does seem as though it was the buy-side driving most of the dollar selling last week. And that's what CFTC futures data confirmed on Friday, too. DXY did some serious damage to the longer-term charts last week, and we imagine DXY sellers will re-appear in the 100.50/75 area if the near-term bear trend remains dominant.

Chris Turner

➔ EUR: Tracing out a new 1.12-1.15 EUR/USD range

As above, EUR/USD did some serious damage to the long-term charts last week and broke out of a bear trend which had roughly contained price action since 2008. 1.11/1.12 is now going to be important support, and presumably the buy-side (including both the private and public sectors) will now be EUR/USD buyers on dips as they wait for the tariff shock to materialise in hard US data. While it is tempting to embrace a 'sell America' mentality, the suggestion that China has been selling US Treasuries remains speculative. Fund flow data to last Wednesday showed that there were still net positive flows into the long end of the US Treasury market, even if the vast majority of flows went into money market funds and the short-end of the Treasury curve. Expect the March Treasury International Capital (TIC) data, released 16 May, to be scrutinised for Chinese selling of Treasuries.

This week, EUR/USD will probably be trapped between a medium-term trend change on a US slowdown and a more [dovish European Central Bank](#). The ECB probably won't like the reality that the trade-weighted euro is surging to multi-decade highs, yet it will also acknowledge its benefit and safe haven properties of the second most liquid currency in the world. This will have some longer-term benefits for eurozone borrowing costs and has already seen German 10-year Bunds outperform Treasuries by 50bp over the last 10 days.

EUR/USD is trading way over any levels that short-term rate differentials would suggest. We don't want to stand in the way of a move to 1.15, but prefer a 1.12-1.15 range near term rather than an immediate push to 1.18/20.

Chris Turner

📉 GBP: Macro back in focus this week

Sterling rallied against the dollar but sold off against the euro last week. As a reserve currency, sterling is participating in this de-rating of the dollar. But euro liquidity is higher than sterling, and there is probably much more repatriation of financial assets into the eurozone than into the UK, given the bloc's large trade surplus with the US.

For this week, the sterling story could be driven more from the macro side. The focus tomorrow will be on the labour market and whether unemployment rose ahead of the introduction of higher employer taxes at the start of April. Wednesday will focus on inflation, where March services inflation is expected to drop to 4.8% year-on-year from 5.0%. Both pieces of data present downside risks to sterling.

EUR/GBP could have another run at the 0.8730 spike high, although a dovish ECB on Thursday could then send EUR/GBP lower.

Chris Turner

📉 CEE: Prefer relative value over outright view

As we move into the second half of the month, the CEE calendar will be quieter with no interesting releases today. Tomorrow we will see the final inflation numbers in Poland for March, likely confirming this year's peak inflation at 4.9% YoY. In Hungary, the National Bank of Hungary's deputy governor candidate and ex-CEO of the debt agency, Zoltan Kurali, will have a hearing in parliament. On Wednesday, Poland's core inflation and the Czech Republic's PPI for March will be released.

The Central Bank of Turkey is scheduled to meet on Thursday, the first regular meeting since the March TRY sell-off. Given the rate corridor hike and TRY liquidity tightening at the March interim meeting, we believe the CBT will be muted in April. However, its 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.

Friday's trading once again confirmed that the risk-off continues and CEE currencies remain under pressure despite the spike in EUR/USD. EUR/PLN and EUR/HUF briefly crossed their key levels of 4.300 and 410, opening up potential for further weakness if the global environment does not improve. However, given the globally driven market, we still prefer to look more at relative value within the CEE region and maintain our view of a lower PLN/CZK.

While both markets have priced in a large number of rate cuts over the past two weeks, we believe the CZK market has more potential for repricing. The Czech National Bank will not be open to cutting rates below 3% as the market prices in at the moment, supporting CZK vs PLN, whereas the National Bank of Poland is close to resuming the rate-cutting cycle regardless of the global story. The HUF is expected to be exposed to further depreciation this morning after S&P revised the sovereign rating outlook from stable to negative.

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