

## FX Daily: A little more risk premium leaves the dollar

US equities have now erased almost 90% of their losses seen in the aftermath of 'Liberation Day'. The mood music on trade has improved slightly, and a US-Ukraine minerals deal helps, too. The next chapter for FX markets is going to be how hard all this uncertainty has hit growth. Today's April ISM is a risk to the dollar. The yen can soften a little on a dovish BoJ



After an unsuccessful meeting between Trump and Zelenskyy in February, the US and Ukraine have signed a minerals deal in which the US recognises Ukraine's sovereignty

### ➔ USD: April ISM poses the downside risk

Whether it has been the approach of public holidays or some real improvement in the global geopolitical environment, cross-market measures of financial volatility continue to fall. US equities have now nearly retraced 90% of their drop in the aftermath of 'Liberation Day', with Meta and MSFT delivering decent 1Q results overnight. Amazon and Apple report today. Helping some of the recent improvement in mood has been news from the Chinese state broadcaster that the US has reached out for trade talks. And a report late yesterday that EU trade negotiators have offerings to bring to the table next week has also helped. Also welcome news for markets is the US and Ukraine signing a minerals deal in which the US recognises Ukraine's sovereignty and seems to be delivering, albeit in an implicit way, security guarantees.

The slightly more positive environment has seen some more of the risk premium come out of the dollar. Remember that we had felt that there was up to a 4-5% risk premium in the dollar when EUR/USD traded above 1.15 a week and a half ago. The reduction in dollar risk premium may have a little further to go, but may run into the bearish headwind of US data. The front-loading of imports largely triggered yesterday's [weak 1Q25 US GDP data](#) - and that's why the dollar did not sell off. Today, however, we're all expecting a soft April ISM manufacturing release ahead of the main event, which is tomorrow's jobs report. Consensus is already quite low at 47.9 for the headline ISM number. And anything softer than that could trigger another leg lower in the dollar.

100.25/100.50 should prove good intra-day resistance for DXY. Anything above there, and investors may need a rethink of some ultra-bearish dollar strategies, and 102 could be the surprise package.

Elsewhere, we've seen a dovish Bank of Japan meeting today, where growth and inflation forecasts have been cut, and importantly, downside risks are seen to both. JGB yields have fallen around 5bp across the curve. The double whammy of risk coming out of the dollar and a dovish BoJ has sent USD/JPY above 144. This could extend to 145, but we would expect more sellers to emerge there.

*Chris Turner*

## ➔ EUR: We may see 1.1250 after all

A week ago, we were thinking that EUR/USD could retrace to the 1.1250 area, and it's taken some time, but we may get there after all. As above, the heart of the story is some risk premium coming out of US asset markets and the dollar. Many European markets are closed for the Labour Day public holiday, but EUR/USD could drift towards the 1.1250/60 area unless the ISM figure has a big miss on the downside.

In terms of the European Central Bank, the market now prices between two and three more 25bp cuts this year, and a dovish ECB remains a key restraining factor for EUR/USD. As per our last FX Talking, we've got an end-quarter [EUR/USD forecast at 1.13](#).

We may be over-analysing things, but EUR/CHF is looking a little soft despite the bounce back in equities. The concern here remains that the Swiss National Bank cannot be as dovish as the ECB and is also more limited when it comes to FX intervention. A return to the 0.92 area looks like the bias, especially if the current risk environment does not hold.

*Chris Turner*

## ⬆ GBP: On the lookout for warmer European relations

In the UK today, we have local council elections. These normally present an opportunity for voters to punish the ruling party. However, in today's case, the opposition Conservative party seemingly has more to lose, given it has far more councillors up for re-election. Here, the Conservatives may lose out to the Reform party and confirm the five-way splintering of UK politics.

We mention politics today because this month (19 May) sees the first UK-EU summit since Brexit. Expectations here are that the UK could sign a new Security and Defence Pact (SDF) with the EU - similar to the SDFs that the EU has with six other countries already. Over the summer, there could also be some progress on the issue of veterinary checks on border goods, ETS carbon allowance

alignment and also youth mobility. The design from the Labour government here is that a closer relationship with Europe could see the Office for Budget Responsibility 'score' UK growth prospects higher in November and give Chancellor Rachel Reeves more room to spend.

Closer European relations normally help sterling. So let's see whether EUR/GBP can push lower ahead of that 19 May meeting. 0.8430 is the target if EUR/GBP can break clear of 0.8500.

*Chris Turner*

## ➔ CEE: Closed markets an opportunity to process busy previous days

Regional markets are closed today for a holiday, and the markets will have a chance to quietly absorb the busy schedule of the previous days. As expected, inflation in Poland fell from 4.9% yesterday to 4.2% in April. We [estimate](#) that core inflation eased to 3.4-3.5% year-on-year. Overall, it seems that the National Bank of Poland has an open path for a rate cut next week and may start with 50bp, which is our baseline and market pricing.

In the Czech Republic, the blackout period ahead of next week's Czech National Bank meeting started yesterday, and from the Board's communication, it seems that another pause will be discussed. This is supported by the 1Q25 GDP release yesterday, which was stronger than the CNB expected. However, April inflation will be released the day before the meeting, and we estimate it at 2.2%, which should still be enough for a rate cut. That said, any upside surprise could swing the odds in favour of a pause in the cutting cycle.

In Hungary, on the other hand, 1Q25 GDP surprised significantly to the downside, and the economy is back on the brink of recession after a quarter of recovery. While this supports the dovish direction of the current story, we believe it is not a game-changer for the National Bank of Hungary given the tricky inflation profile. April inflation is likely to fall below 4% due to government measures and base effects, but the next few months will again show higher numbers. It was inflation expectations that the NBH mentioned as a major focus at [Tuesday's meeting](#), along with the global story and trade wars.

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