

FX Daily: All smoke and no fire?

Many central banks are announcing policy this week, but we may not end up looking at a very different global FX picture by Friday. The Fed could keep its Dot projections unchanged and reiterate data dependency, delaying most USD moves to April's round of data releases. The BoJ's hike or hold decision is a 50-50 affair, but the yen still needs help from USD rates



📈 USD: No fireworks from the Fed

On paper, this week has the potential to leave lasting marks on the FX market. The Federal Reserve, Bank of Japan (JPY section below), Reserve Bank of Australia, Bank of England, Swiss National Bank, and Norges Bank will all announce rates. In the EM space, we'll see policy announcements in China (Loan Prime Rates), Indonesia, the Czech Republic, Brazil, Turkey, Mexico, Taiwan, and Russia.

In practice, when it comes to the broader implications of developed/major central bank decisions this week, we suspect the global picture for FX may not end up being particularly different by this Friday. The Fed meeting on Wednesday is the most important event of the week, as we discussed in a [recent note](#) on our expectations and the potential market implications. Our view is that the policy message will not substantially diverge from Chair Jerome Powell's Congress testimony earlier in March. The FOMC should remain cautiously optimistic on disinflation and rate cuts later

this year, although the release of the Dot Plot projections will force policymakers to offer some clearer guidance on the size of the easing package – something Powell may attempt to avoid, instead opting to emphasise data dependency. There are currently three 25bp rate cuts in the median 2024 Dot Plot, but projections are so dispersed that it would only take two FOMC members changing their “dot” to take the median to two or four rate cuts this year. The short-term reaction in the dollar should be primarily driven by projections on rates and other macro indicators. We expect an unchanged Dot Plot but admit that a hawkish revision looks more likely than a dovish one.

Where does this leave the dollar? We doubt the meeting will prompt tectonic shifts in FX positioning. Potential Dot Plots adjustments point to some upside risks for USD, but cautious optimism on disinflation points to a softer USD. Ultimately, the Fed may not provide enough reasons for investors to diverge materially from the 75bp of easing priced in by year-end, and the predominance of a data-dependent view may very simply delay any larger dollar and broader FX moves to the first half of April when key US figures for March are released. We would not be surprised to see a modestly stronger dollar into the FOMC announcement and DXY to end the week close to 104.0.

In Australia, the RBA announcement (tomorrow at 03:30 UTC) does carry some downside risks to the Australian dollar, as the unexpected flattening in January's CPI at 3.4% might prompt policymakers to open the discussion on rate cuts. We are not convinced that this will happen, though. The RBA still has reasons to maintain its hawkish bias, given a lower policy rate compared to other major central banks, the recent hawkish repricing in global rate expectations, and the lingering risks of a rebound in inflation. We like the chances of a sustained AUD rally from the second quarter and are not too worried that the RBA will get in the way.

Francesco Pesole

📌 EUR and other European FX: Plenty of action

EUR/USD will be primarily driven by US events this week, although there are some inputs from the eurozone calendar that should not be overlooked. Final February CPI figures this morning should not surprise, but tomorrow's ZEW survey will be interesting to check the state of the struggling German economy. As will PMIs on Thursday, which could potentially offer some direction to EUR/USD into the weekend after the FOMC has been digested. There are also plenty of European Central Bank speakers to hear from, including President Christine Lagarde on Wednesday. Our view on EUR/USD is that it can trade on the soft side into the FOMC, but could still end the week within the 1.0850/1.0900 range.

In the rest of developed Europe, we'll see policy announcements in the UK, Switzerland and Norway. As discussed in our [Bank of England meeting preview](#), February's CPI figures released on Wednesday could have a big say in what the BoE announces on Thursday. The focus will remain on services inflation, which we expect to decelerate but remain elevated at 6% (also in line with the Bank's forecasts). After dropping its hawkish tone in February, we don't see the Bank being in any rush to take further steps to the dovish side of the spectrum just yet, at least barring a major downward surprise in CPI on Wednesday. Ultimately, the pound may absorb any further recovery in the dollar better than most other currencies, and we see EUR/GBP stabilising around the 0.8500 or trading closer to the big 0.8500 support in the short term.

In Switzerland, we expect the SNB to stay on hold even though there has been some speculation of

a rate cut already this month. However, we think the SNB is much more likely to wait for its next meeting in June to start easing policy. That allows for a couple more months of evidence that inflation has indeed stabilised, and June is also the point that the ECB is expected to start cutting. EUR/CHF may move lower this week as the 7bp of implied tightening for this meeting are priced out, but we still expect the pair to find good support at 0.9600.

Finally, we see some upside potential for NOK ahead Thursday's announcement when policymakers could stick to a generally hawkish stance. Still, NOK's huge exposure to USD-driven risk sentiment means a lot of volatility should still be imported.

Francesco Pesole

📉 JPY: As close to 50-50 as it can be

The Bank of Japan announces policy overnight, and it appears it will be a very close call on whether or not it will deliver the long-awaited 10bp rate hike that would lift the country out of negative rates. Looking only at the macro picture, we think the BoJ is more likely to wait until April to take a closer look at consumer developments. However, some media reports in Japan have quite clearly suggested the hike will come tomorrow.

This will be a binary event for the yen, given that markets are pricing in around a 50-60% implied probability of a hike this week. Expectations are also for a rate hike to be accompanied by the end of the yield curve control policy, even though the BoJ may well keep its bond-buying programme intact to avert excess bond market volatility. A hold should push USD/JPY, which can cause the pair to test 150, while a hike can trigger a correction to levels below 148.00.

Still, we recently reiterated how developments in US data/Treasury yields are just as important for the yen as a BoJ hike could be. The recent price action in USD/JPY has very much endorsed this view, and we don't believe that – beyond the inevitable JPY volatility after the BoJ announcement tomorrow – it will take long before USD rates to start driving USD/JPY again. Our view remains that USD/JPY will trade lower from the second quarter, but that relies on lower USD rates as much as a BoJ hike.

Francesco Pesole

➡ CEE: More divergence in the region

This morning, the PPI figures for the Czech Republic and core inflation in Poland for February will be published. After an annual update of the CPI basket weights, the National Bank of Poland will publish January and February core inflation data. According to our estimates, core inflation fell from 6.9% in December to 6.4% year-on-year in January and 5.3% YoY in February. On Wednesday, we will see industrial and labour market data in Poland and a decision by the Czech National Bank. The board's statements last week prompted us to change our rate cut expectations from 75bp to 50bp, which is now the market consensus. However, we should still see at least two votes for a bigger rate cut. On Thursday, Poland will publish retail sales, and the Central Bank of Turkey will release a rate decision. We expect that the CBT will prefer to wait for the March inflation data before deciding on any rate move and should remain on hold this week.

A slight drop in PLN rates following inflation figures in Poland and a spike in core rates led the PLN to losses in recent days as the only currency in the CEE region. For now, we see EUR/PLN back

around 4.300. However, we could see more political noise this week around the central bank, which could show more attractive levels for PLN buyers in our view. On the other hand, we think the CZK strengthened too quickly, which may have been triggered by hawkish comments from the CNB. We believe an acceleration in the pace of rate cuts will remain on the table for the next meeting, which should keep the CZK under pressure. For now, it is too early for a bounce and we remain rather negative. On the other hand, HUF has shaken off the political noise in recent weeks, and we see room for further rally closer to 390 EUR/HUF – unless the discussion around the central bank triggers further headlines.

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