FX Daily: Another week of a data-tariff dichotomy

US consumer confidence data tomorrow carries fresh downside risks for the dollar, and with potentially strong PMIs in Europe today, EUR/USD can move back above 1.090 by Wednesday. Still, the 2 April US tariff event may prevent early-week USD losses from lasting until the weekend. We're also bearish on GBP this week ahead of Wednesday's Spring Statement

We think US consumer confidence data will be key to watch this week

USD: Data obstacles this week

The dollar found some support last week after a very weak start to March. The Federal Reserve's reiterated cautiousness on rate cuts has likely prevented further bearish sentiment from accumulating on the dollar, but we think it's mostly the upcoming 2 April US tariff implementation that is forcing some rethink about short-USD trades. Reports suggesting some countries may be exempt from the first protectionism wave are helping risk sentiment and are modestly weighing on the dollar this morning, but we think there will be a higher bar for rebuilding bearish dollar sentiment into the tariff deadline.

At the same time, there are key data hurdles on the path to the dollar's re-appreciation. As things stand now, consumer confidence is probably the single most important input for FX, so tomorrow's Conference Board survey results are the key event of the week. Our call is 93, close to consensus, but activity indicators have substantially undershot expectations of late, so we still see the release as mostly a downside risk for USD. Later in the week, we'll also look at core PCE for February, which is expected at 0.3% month-on-month. That should not tilt the balance in any specific direction when it comes to Fed expectations but can be read as a mildly hawkish signal and dollar positive.

Russia-Ukraine (indirect) peace talks will also remain on investors' radars. The latest developments suggest some improvement but provide no clear indication that an immediate ceasefire is on the cards. Market optimism on that, which showed through some European FX underperformance, risks being scaled a bit further unless there is tangible progress in this week's talks.

We retain a bullish bias on the dollar for the coming weeks. But short-term noise remains likely, and the dollar may soften in the first half of this week on some soft PMIs (today) and consumer confidence disappointment (tomorrow) before recovering into the PCE release on Friday, with DXY potentially restabilising around 104.

Francesco Pesole

EUR: Squeezing the last bits of fiscal optimism

Our considerations above on somewhat fading optimism on a speedy ceasefire in Ukraine have likely contributed to softer EUR momentum. Nonetheless, EUR/USD is still around 1% above our estimate for its short-term fair value, as a two-year swap rate gap around -150bp is more consistent with 1.07 than 1.09, and our one-month view on the pair remains bearish. However, this week is quite data-heavy and the euro could squeeze some extra benefit from fiscal optimism.

Today, the eurozone releases PMIs for March. It's an important gauge of business sentiment following the German fiscal announcement, and expectations are for an increase in all European composite surveys. The ZEW index beat expectations, and the balance of risks is for a EUR-positive release today. Similar considerations can be made for tomorrow's Ifo index.

We have a few European Central Bank speakers to watch this week, but we are quite doubtful that any new guidance will emerge before we see more clarity on the impact of US tariffs. Our call for this week is a return above 1.090 in EUR/USD by Wednesday followed by some softness towards the back end of the week as markets look past data and build more defensive positions ahead of the 2 April tariff event. We still doubt there is enough bullish thrust to take the pair above 1.10.

Francesco Pesole

GBP: Downside risks from budget event

EUR/GBP eased back below 0.840 last week on a modestly hawkish Bank of England meeting and broader unwinding of EUR longs. However, we are bullish on the pair this week. Today's PMIs should look comparatively better in the EU than in the UK, but most downside risks for sterling stem from Wednesday's UK budget event.

As discussed in our UK economist's preview of the Spring Statement, spending cuts should be enough to meet the fiscal rule. However, the gilt market will be on the lookout for any missteps in the very tight room for fiscal manoeuvring, and the bar for a negative reaction either in bonds or a meaningful repricing lower in growth expectations both have the potential of hitting sterling. We see upside risks to EUR/GBP extending beyond the recent 0.845 highs this week.

We also have inflation data in the UK this week, but we don't expect it to be a major market-moving event, with services CPI expected to have remained close to 5% in February.

Francesco Pesole

CEE: Different reasons, same hawkishness

This week, attention will shift to central banks in the CEE region. Retail sales in Poland will be published today and previous data from last week indicates a weaker print.

Tomorrow, the National Bank of Hungary will meet, and will probably leave rates unchanged at 6.50%. The meeting will be the first under the leadership of the new Governor Mihaly Varga and the market will monitor any changes in communication. We expect rates to remain unchanged throughout this year, but the central bank's view of the previous upward inflation surprise and the outlook for the coming months will be key.

The Czech National Bank meets on Wednesday and will also probably leave rates unchanged at 3.75%. We expect the central bank to opt for a second pause in the cutting cycle, waiting for the May forecast before taking any further steps. Inflation is falling, but more slowly than the central bank expected and at the same time risks are building to the upside. Attention will therefore be focused on Governor Ales Michl's press conference and any necessary conditions for further rate cuts. We expect two more rate cuts in May and August, but the risks are visibly shifting to just one rate cut in May.

In our view, both meetings should be positive for currencies. EUR/HUF has stabilised slightly below 400 and confirmation of hawkish communication under the new leadership of the NBH should be positive for the forint. At the same time, on a global level, we are still monitoring the negotiations between the US and Russia regarding peace in Ukraine, and this should be the most supportive for the HUF. While we are bearish in the medium term, in the short term we believe that EUR/HUF can test new lows below 397.

Similarly, the koruna should benefit from a hawkish CNB. In our view, the market is pricing in the maximum possible rate cuts – two 25bp cuts – and the repricing risk is on the hawkish side. At the same time, the global story is also supportive for CZK as it is for HUF. We therefore believe that EUR/CZK should test 24.950 and possibly lower levels this week.

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