

## FX Daily: Asian FX in focus as dollar strength continues

With US 10-year Treasury yields a stone's throw away from 3%, it is no surprise to see the dollar holding onto recent gains. The focus this week is very much on Asian FX as USD/JPY approaches 130 and China is giving some hints it might like a weaker currency. Today's focus will be on central bank speakers and tonight's TV debate between Macron and Le Pen



### USD: Dollar holds gains

Perhaps one of the surprises in financial markets this year is how well global equities are coping with the commodities supply shock and the 120bp surge in US 10-year yields over the last six weeks. So much for the bond market tantrum. That is not to say that the rise in US real yields into positive territory will not start to weigh on activity, but the fact that US equity markets in particular have held up well has allowed Fed tightening expectations to remain strong (a further 225bp of Fed hikes priced before year-end) and the dollar to stay bid.

The focus this week is switching increasingly [towards Asia](#). Two pairs are very much in focus: USD/JPY and USD/CNY. On the former, USD/JPY has traded to 129.40 overnight as Japanese

authorities are yet to show much resistance to a weaker yen. Once again, the Bank of Japan overnight offered to buy unlimited amounts of 10-year JGBs at 0.25% in a move that signalled an unchanged (very dovish) policy. We had felt that FX intervention [would not be seen until the 130 level](#) and even now it is hard to describe market conditions as disorderly enough to justify intervention. One note of caution, however. The Japanese Finance Ministry has ramped up its verbal intervention and the G20 finance ministers and central bank governors meet in Washington today. It would seem unlikely that Japanese authorities could garner any shared concern for JPY weakness, but we should be aware of the event risk of that concern appearing in a G20 communique later today.

Regarding USD/CNY, the People's Bank of China (PBoC) fixed USD/CNY 100 pips higher than model-based estimates had suggested. That could signal that the PBoC prefers a weaker renminbi to support [other stimulus measures in play](#). We have been here before, in that a higher USD/CNY fixing has not necessarily led to a more definitive USD/CNY rally - yet again this should be a point of attention and one which will only support the broader dollar bull trend.

Away from the G20 meeting, the US highlights today will be existing home sales and Fed speakers Mary Daly and Charles Evans around 1730CET. Yesterday, Evans told reporters that he was ['comfortable'](#) with two more 50bp rate increases this year. A half-point hike now looks nailed on for 4 May and dissent seems unlikely. Expect DXY to hold gains above 100.

## ↓ EUR: French TV debate to keep EUR subdued

EUR/USD continues to consolidate at lower levels, weighed down by both a strong dollar and signs that the European Central Bank is in [no hurry to normalise policy](#). The focus today in Europe will be on tonight's TV debate (21CET) between Emmanuel Macron and Marine Le Pen. Polls currently show quite a strong lead (56% vs 44%) for Macron, while Le Pen will be hoping to improve on her poor TV debate performance back in 2017. We doubt EUR/USD will rally too far were Macron to 'win' the TV debate, but avoiding any slip-ups could see EUR/USD continue to hold above the 1.08 level despite a broadly stronger dollar.

## → GBP: Holding pattern

Markets currently price in a 30bp hike at the 5 May Bank of England meeting. The fact that expectations have not shifted towards the 50bp area despite higher inflation is probably down to the same concerns expressed by the IMF yesterday when it cut the 2023 UK growth outlook to 1.2% from 2.3%. Money markets continue to price in 150bp of BoE rate hikes by year-end, while our economics team thinks that it will be closer to 50bp. That would leave GBP vulnerable in the second half of this year and suggests any dips in EUR/GBP to the 0.8250 area could be the low point of the year.

## ↓ ZAR: On borrowed time?

Having enjoyed the benefits of the commodity rally, the South African rand is starting to soften. As a high beta emerging market currency it will be one of the most exposed to higher US yields. But it is also one of the most highly correlated currencies with the Chinese renminbi. Were USD/CNH to start trading up to the 6.50 area, we could see USD/ZAR trading to 15.50.

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