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FX

FX Daily: Back on the rollercoaster

Market optimism is fading again, after some military skirmishes in the Strait of Hormuz and the US restarting its escorting programme. There is still some hope that a deal will be agreed before the 14-15 May US-China summit, but risks are clearly very binary for USD crosses at this stage. US payrolls should be solid, but unlikely to overshadow Gulf headlines



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➔ USD: Back up on new escalation risk

The dollar has risen back as optimism over an imminent US-Iran deal has faded. The US conducted strikes in the Strait of Hormuz area, and Iran fired missiles at some US destroyers after claiming the US violated the ceasefire. The US specified it does not seek escalation, but this is still concerning news for a market that was close to fully pricing in a resolution.

The *WSJ* also reported the US is ready to restart military escorts in Hormuz (“Project Freedom”) as early as this week, as Saudi Arabia and Kuwait lifted restrictions on airspace access. That may have prompted Trump to pause the project earlier this week, a development markets had seen as adding pressure on the US to get a deal.

If this proves to be another episode of misplaced optimism on a US-Iran deal, not only does the dollar have plenty of upside room to recover, but there’s a good chance investors will prove

more cautious and won't jump as aggressively into de-escalation trades without concrete progress in negotiations. The hope for risk bulls is still that China is adding pressure on the US to reach some kind of deal in the Gulf before the 14-15 May Trump-Xi summit. The outlook is looking quite binary from here for the dollar, with the reaction in equities still likely to have a bigger bearing than oil volatility on DXY.

On the macro side, the US releases jobs figures for April today. Our economists' call on payrolls is 50k, modestly below the 65k consensus. We expect unemployment to remain unchanged at 4.3%, in line with expectations. These would be strong numbers given the poor geopolitical backdrop and spike in gasoline prices. At the same time, employment gains have been confined to health/social care and hospitality/leisure, with the rest of the economy shedding jobs, so we doubt markets will be adding any hawkish views simply on the back of that. Last week, Fed Governor Chris Waller described the labour market as weak, with labour force growth likely "close to zero".

Ultimately, news from the Gulf remains simply more important for both Fed pricing and the dollar at this stage than jobs figures.

Francesco Pesole

➔ **EUR: Tariff threats re-emerge**

The euro held up relatively well in the crosses yesterday, despite losing some ground against the USD. That is probably due to the impact being more visible in softer equities than significantly higher oil prices, which meant underperformance of less liquid, commodity-exposed currencies. Only NOK narrowly outperformed the dollar yesterday, although that was entirely due to a [Norges Bank hike](#).

The euro didn't seem to suffer from Trump's 4 July ultimatum to the EU to ratify its trade deal, threatening to hike tariffs. That's understandable considering geopolitical volatility makes it impractical to price in a risk two months ahead. To us, however, it's a reminder that if the conflict heads to a resolution, trade may well be next on Trump's agenda, with the USMCA and EU on top of the list.

We still think a peace-Hormuz deal could prompt EUR/USD to rally above 1.180. But risks are very binary at this stage. Even without a military re-escalation, negotiations falling through again should take EUR/USD back below 1.170.

Francesco Pesole

⬇ **GBP: Pound vulnerable on local election fallout**

The UK's ruling Labour Party has suffered heavy losses as the results of council elections start to come in. Most areas are yet to declare results, including in the crucial Scottish and Welsh

parliamentary elections. Some Labour figures are already out this morning calling on Prime Minister Starmer to go. Investors will be watching the cabinet closely for signs of pressure or even resignations, as markets weigh up the possibility of an increase in borrowing later this year under different leadership scenarios.

The pound had weakened yesterday before any news about early voting results emerged, largely on the back of softer risk sentiment. Still, some politics-related bearish positioning might have also played a role. EUR/GBP is little changed this morning, but given that no political premium was priced in ahead of these elections, risks remain on the upside for the pair.

Francesco Pesole

➔ **CEE: Central banks hold fire as divergence emerges in forward guidance**

The Czech National Bank and the National Bank of Poland both left policy rates unchanged (3.50% and 3.75%, respectively), in line with expectations, but signalled diverging risks through their communication. In the Czech Republic, [Governor Ales Michl struck a relatively dovish tone](#), emphasising a wait-and-see approach and arguing that policy is already sufficiently tight, with the Board willing to look through near-term supply-driven inflation pressures. By contrast, in Poland, [President Adam Glapiński highlighted rising upside risks](#), pointing to the phase-out of energy subsidies and returning food VAT as potential drivers of renewed inflation pressure in the second half of the year.

From a market perspective, the contrast suggests limited scope for further tightening in the Czech Republic despite still-elevated rate expectations and waiting longer before a possible hike decision, while in Poland the discussion has shifted away from easing toward a prolonged hold, with tightening risks conditional on inflation persistence.

Across the region, recent FX stabilisation has been supported by improved global sentiment, but without a clear hawkish catalyst, further appreciation looks constrained, leaving currencies broadly range-bound near current levels.

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