FX Daily: Bessent throws US assets a lifeline

The dollar is enjoying some support thanks to a recovery in US market sentiment. At the moment, no other G10 currency has a higher beta than the dollar to US trade news, and Treasury Secretary Scott Bessent's seemingly conciliatory comments on a US-China trade de-escalation could favour a USD stabilisation

US Treasury Secretary Scott Bessent

USD: US-China de-escalation in sight?

The dollar rebounded alongside US equities yesterday as market fears about tariffs eased partially. We also suspect some positioning rebalancing is behind the dollar recovery. As we warned in yesterday's FX Daily, the dollar was facing a new degree of downside risks stemming from Trump's attack on the Fed's independence, but the greenback's position was undeniably oversold and undervalued, meaning that a return to better FX liquidity on Tuesday could have favoured some stabilisation.

Treasury Secretary Scott Bessent threw a lifeline to fragile US sentiment with conciliatory remarks on the US-China trade war. Bessent said the current tariff situation is "unsustainable" and expects a de-escalation in the near term. We could witness a period where the dollar is tossed around by headlines of Fed independence risk and market-friendly news on US tariff policy. What is clear by now is that no other G10 currency has a higher positive beta to trade news than the dollar.

Net-net, we still think the balance of risks remains skewed to the downside for USD in the near term, but we don't expect a repetition of the one-way traffic in dollar selling we have witnessed of late. Looking a few weeks ahead, our preference is for a stabilisation in the dollar rather than another structural weakening.

Today, the S&P Global PMIs are released across some major countries. Those are not as relevant as the ISM surveys in the US but have good comparability with other major countries. We doubt the implications will be significant for FX, barring big deviations from the consensus view for a moderate decrease.

Francesco Pesole

EUR: Business sentiment not expected to plummet

The occasions where the dollar gets some boost from improved US risk sentiment lead to large unwinding in the currencies that have emerged as safe-haven alternatives: EUR, CHF, JPY. It appears that the reasoning behind the dollar rally is somewhat secondary for the FX impact. In theory, the euro should benefit from the news of possible de-escalation between the US and China. Positioning is more relevant at this stage, and the euro, alongside JPY and CHF, is asymmetrically exposed to dollar rebounds compared to other G10 currencies.

The PMIs in the eurozone today are expected to show a measured decline despite tariff news. The surveys were conducted after the 90-day pause announcement, which probably justifies the relatively upbeat consensus view. We know the ECB is looking at tariffs with greater concern from a growth perspective relative to inflation, so a soft read should further endorse the market's dovish pricing (75bp of additional cuts by year-end). A break below the 50.0 recessionary line can trigger some euro weakness.

That said, EUR/USD remains almost entirely a function of USD moves. And another leg higher above 1.15 remains possible should fears about the Fed's independence take centre stage again.

Francesco Pesole

GBP: PMIs not a key input for the BoE

The pound will look at today's PMIs to gauge the drop in business sentiment due to US tariffs. Similar to the eurozone, the expected decline in the composite PMIs is unlikely to be enough to take the index below the 50.0 level.

Unlike the ECB, these surveys are not particularly regarded by the Bank of England, which remains fundamentally more concerned about inflation. Later this week, we'll see UK retail sales figures for March, which are expected to drop following March's strong print.

Any further improvements in risk sentiment should asymmetrically help the pound relative to the euro. The case for a return below 0.850 in EUR/GBP is quite compelling if the Trump administration keeps offering soothing signals for markets. The worst-case scenario for the dollar (an emergency Fed cut due to Trump's pressure) should also drive EUR/GBP higher as the euro is a more attractive receiver of USD outflows than sterling.

Francesco Pesole

CEE: More evidence of monetary policy divergence in the region

In Poland, March data for industry and construction fell short of market expectations yesterday, indicating a more cautious approach from businesses in the face of elevated uncertainty about the global growth outlook. The labour market is cooler as well, with wage growth continuing to moderate. Altogether, the data adds to arguments for a rate cut in May.

Today, we will also see retail sales data in Poland for March. Demand for goods remains lacklustre, and the March retail sales reading is expected to be negative. Contrary to industrial output, the reference base in this case is high as the majority of Easter spending took place in March 2024, whereas this year we should see it in April.

In the Czech Republic, we saw the first Czech National Bank interview yesterday ahead of the start of the blackout period next week. Deputy Governor Jan Frait said that the key rate will be "around" 3.50% in the second half of the year, which is significantly higher than the market's pricing, with the terminal rate priced in at 2.75%. As we expected, the CNB is indicating a much more hawkish stance than the market, which has priced in rate cuts in recent weeks. Today, we'll see part two of the interview, which could show more clarity on the CNB view.

We believe that both the story in Poland and the Czech Republic support our view of the lower PLN/CZK and we will see more here. Also, some easing of risk-off sentiment last night after the US headlines indicates a better opening than we saw on Tuesday when CEE was under pressure.

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