

## FX Daily: BoJ asks markets for patience

European FX markets start the day analysing the Bank of Japan's announcement of an 18-month review of monetary policy. We suspect a change in policy can come sooner. Elsewhere, it is a busy day of key inflation gauges in the US and Europe, plus the first look at 1Q23 GDP across the eurozone. We suspect the dollar can hold up a little longer



Bank of Japan governor  
Kazuo Ueda

### 📈 USD: Market refocuses on US price data

The Bank of Japan (BoJ) [has announced](#) it is undertaking an 18-month review of how it has conducted monetary policy over the last 25 years - that is how long Japan has been struggling with deflation. This has disappointed some looking for some early (less dovish) change from the new regime of Kazuo Ueda. The yen has softened modestly and the 10-year JGB yield - a policy target - has dropped 7-8bp. These are not particularly large moves. ING's [Min Joo Kang](#) thinks that high inflation and probably a shorter time frame on the review may mean an adjustment in policy comes earlier - and speculation could rebuild over some tweaks in policy ahead of the 16 June BoJ meeting. More will be revealed at Governor Kazuo Ueda's press conference today at 0830CET. In short, we do not think the yen should collapse on this seemingly dovish continuity of policy.

Instead, we think the market will prefer to continue holding defensive FX positions, which up until

recently has favoured the yen and European FX (backed by a hawkish European Central Bank). US banking stress continues to simmer as seen by a further rise (\$7bn) for the Fed's Bank Term Funding Programme and speculation over First Republic's future. Adding to this defensive stance is the view that the Fed may not be quick to cut rates because of sticky inflation. This brings us to US price data.

Yesterday, the [1Q23 US GDP figures](#) revealed a firmer-than-expected core PCE price release. That means today's March core PCE figure could surprise the consensus 0.3% month-on-month estimate to the upside and argues that inflation is remaining more stubborn than feared. Today we will also see the 1Q Employment Cost Index. This is expected at 1.1% quarter-on-quarter and again will be a key input into next week's Fed's decision. The dollar has shown great sensitivity to this price data recently and any upside surprise could trigger bearish US curve flattening and further dollar strength against commodity currencies and emerging market high yielders. European FX should remain a little more insulated given a hawkish ECB and some modest improvement in eurozone GDP data.

We have a slight bias that DXY edges up to 102 and does not stray too far from there heading into next Wednesday's FOMC meeting. USD/JPY will want to test higher today, but we suspect the 135/137 region will find good sellers ahead of the second half US recession.

*Chris Turner*

## ➔ EUR: 0.2% all round

EUR/USD is consolidating not far from 1.10 as sticky US price data provides something of a pushback to ECB hawkishness and keeps the risk environment fragile. In focus today will be European 1Q23 GDP data. France has already released an on-consensus 0.2% QoQ reading - with the same expected for both Germany and the eurozone a little later. In addition, we will see German April CPI data - expected at an unchanged 7.8% YoY on an EU harmonized basis. We doubt this will really change the market's current pricing of a 30bp at next Thursday's ECB meeting. [Our team looks for a 25bp hike.](#)

With US banking stress still bubbling and perhaps some firmish US price data still coming through, it seems EUR/USD bulls will need some patience. EUR/USD could remain stuck around this 1.10 area and be buffeted by month-end flows - especially around the 17CET London WMR fix.

*Chris Turner*

## ➔ GBP: Further consolidation sub 1.2500 for GBP/USD

GBP/USD is starting to trade in some tight ranges under 1.2500 as late-cycle US inflation data will keep Fed hawks preoccupied. Pressure does look to be building for a move higher later in the year, however. In the UK, the mood music is slightly improving with business confidence edging higher. Warmer relations with the EU seem to be helping the tone and the UK's competition authority's blocking of Microsoft's takeover of Activision has not hit UK asset markets in a noticeable manner.

Today the focus will be on US and European data - which can probably leave GBP/USD in a 1.2400-1.2525 range. EUR/GBP looks comfortable above 0.8800 and may be more driven by what European price data means for next week's ECB meeting.

*Chris Turner*

## CEE: Another drop in Polish inflation

Inflation figures in Poland are on the calendar today. Our team in Warsaw is expecting a further fall from 16.1% to 14.8% year-on-year in April, slightly below market expectations. Disinflation is expected to continue due to the reversal of the energy shock, but core inflation is likely to remain close to the March reading of 12.4% YoY as cost increases continue to feed through to the broader price of goods and services.

On the FX market, the CEE region was struggling yesterday to make new gains and the volatile EUR/USD was not making the situation any easier. If Polish inflation surprises to the downside, it may be a confirmation of dovish expectations for the market, adding to the sense that inflation is finally coming under control. This may ultimately push the Polish zloty to further gains. However, in any case, we see that the zloty should benefit from positive global conditions as we mentioned yesterday. Thus, another test of 4.580 EUR/PLN is very likely today. We see the same case for the Czech koruna, however, the main boost for it should come next Wednesday when the [Czech National Bank meets](#). For now, we see that EUR/CZK should not get above 23.50, and on the contrary, we may see some small gains today in preparation for the central bank meeting. The Hungarian forint is back on a trajectory of following global sentiment again since the start of monetary policy normalisation and is regaining its beta against the global story. This could take the forint to 372 EUR/HUF, but we think the next move will be conditional on the EU story.

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