

FX Daily: Bond sell-off softens risk environment

A series of softer US Treasury auctions and a sell-off in the longer end of the bond market is weighing on risk assets and providing some support to the dollar. This may well just be a short-term swing ahead of Friday's key US data release, but it is a trend worth watching. Elsewhere, we are seeing some profit-taking in Mexican and South African currencies



Determining the direction for markets today will be the much-anticipated release of US payrolls data

➔ USD: Probably more chop than trend

The dollar had a better day yesterday and the DXY pushed back above 105. The question is whether this marks the start of a new mini-trend, or is just range-trading in a low-volatility environment. We tend to favour the latter, but will keep an eye on the key trends driving the former. In particular, the focus will be on whether the sell-off in Treasuries continues. Here, this week's auctions of two, five and seven-year Treasury securities have all come in on the soft side. This has left longer-dated US yields up around 25bp over the last couple of weeks - a move that has started to weigh on equity markets. We think the sell-off in equities has allowed the dollar to reconnect with firm short-term US interest rates, where the two-year USD swap rate has pushed back up to 4.85% as Federal Reserve easing expectations have been pared back.

Where do we go from here? Two overnight developments suggest that Treasuries could find a little more support. The first is a decent two-year JGB auction, which seems to have put a lid on the rise in JGB yields. Here, an unchecked rise in JGB yields had likely been contributing to the rise in Treasury yields. Secondly, last night's release of the Fed's Beige Book [read quite dovish](#). On economic activity we read: 'Overall outlooks grew somewhat more pessimistic amid reports of rising uncertainty and greater downside risks'. On the labour market, we read: 'Multiple districts said employee turnover has decreased, and one noted that employers' bargaining power has increased'.

Today, we will get the revised first quarter US GDP data for 2024 (which is expected to be revised a little lower), plus the quarterly core PCE price index, expected to remain at 3.7% quarter-on-quarter annualised. Tomorrow's April core PCE price data will be far more important for markets. We will also see the weekly jobless claims numbers and the April trade data.

Unless this bond sell-off gains momentum and takes global equities down another leg, we suspect the current DXY rally may well peter out in the 105.15/25 area. Tomorrow's April inflation data is more likely to set the next meaningful dollar trend.

Chris Turner

➔ EUR: Back where it belongs

The correction lower in global equities has weighed on EUR/USD and taken it back to ING's medium-term fair value level of 1.08. We do not think there is a case for a much weaker EUR/USD unless this bond sell-off has another leg to go.

In focus today will be eurozone business confidence for May. Some modest improvement is expected across the board, but as we saw with [Monday's German IFO release](#), the pick-up in sentiment looks likely to be more modest than euphoric.

Also please see ING's [full ECB preview here](#).

We see a decent chance that EUR/USD edges back above 1.0800 in quiet markets, but investors are likely to wait for tomorrow's data before making their next FX move.

Chris Turner

⬇️ CEE: Global story once again testing room for sell-off in region

Today's calendar in the CEE region is basically empty, except for secondary data in Romania and Turkey this morning. However, more interesting these days are the markets. The spike in core rates over the past two days and a stronger US dollar yesterday are testing the strength of CEE currencies again. Yesterday's sell-off across the board showed the market sensitivity here, which we have been pointing to for some time. Significant overbuying and long positioning across the region is facing a correction and profit taking.

Nothing much has changed on our preference of HUF as the most vulnerable in our view, which was confirmed yesterday by leading losses. On the other hand, inflation in Poland surprised to the downside triggering some receiving flow in rates, which undermines PLN's strong fundamentals

somewhat. Not a game changer in our view but if negative global conditions persist today, we will see further losses on the PLN side as well. CZK seems like the most boring currency within the CEE region for now. But we must mention that we still haven't heard much from the Czech National Bank after the surprise rise in inflation in April, and so the markets are probably waiting for more guidance. Overall, we see the CEE region vulnerable to the global story, which will drive FX in the region in the days ahead given the lack of momentum from the local story for now.

Frantisek Taborsky

📌 EM: Rand and peso correct into elections

The slightly tougher external environment has seen two popular currencies – South Africa's rand and Mexico's peso – correct a little lower. Both face major election results over the next few days. We preview South Africa's election [here](#) and have a slightly bearish bias on the rand. We have long been very bullish on the Mexican peso, but will be interested to see how the currency performs around the weekend election results.

Claudia Sheinbaum is widely expected to succeed Andres Obrador as Mexico's next president. She is seen as a continuity candidate. The focus of the election looks more to be whether her party, Morena, secures a supermajority in Congress, which would allow some more institutional reforms and perhaps some that may worry investors. We should know more next Monday.

Chris Turner

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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