

FX Daily: Bracing for a prolonged shock

The dollar is pushing to new highs for the month as the market struggles to see a way out of the Middle East crisis. European and Asian equity markets have been hit harder than those of the US, and the longer the crisis goes on, the greater this divergence will become. A firm reading on the Fed's preferred inflation gauge could add to the dollar's rebound



USD: Staying long dollars into the weekend

Measures by global authorities to limit the rise in energy prices have so far had little effect on the market. These measures include a 400 million barrel release by IEA members and, now, the US Treasury's formal approval of the sale of Russian energy products until 11 April. The reality is, however, that it is impossible to replace the 20m barrels per day of crude being shut-in by the military conflict in Iran. Brent remains stubbornly above \$100/bl as the US and Israeli militaries fail to prevent attacks on oil tankers moored in the region. Investors are now bracing for multi-month disruption. Ten days into the war, on 10 March, investors were attaching a 79% chance that traffic in the Straits of Hormuz would return to normal by 30 April. That chance is now priced at just 44%. The market probably has little confidence that Iran can be bombed into submission and instead will be looking for any paths to a halt in hostilities, be that through a ceasefire or Washington declaring mission accomplished.

Away from the Middle East, today's US data should also feed into this month's hawkish re-pricing trends of central bank policy. The Fed's preferred measure of inflation, the core PCE index, is expected to rise to 3.1% year-on-year in January. This hit a low point of 2.6% last summer and has since been trending away from the Fed's 2% target. This limits the ability of the Fed to cut rates this year, and we will hear a lot more from the Fed at next Wednesday's FOMC meeting. Today will also see the release of US job openings data for January. We doubt any surprisingly soft reading will weigh on expectations for Fed policy or the dollar for long today.

Yet this month's dollar rally has not been driven by interest rate differentials, but by the macro fallout of higher energy prices. Here, European and Asian equity benchmarks have been marked 6-7% and 8-9% lower, respectively, this month. The US S&P 500 and the Nasdaq are off just 3% and 1.5%, respectively, as US energy independence cushions US markets. We doubt these trends will change until energy starts flowing in the Gulf again.

The DXY is pushing to new highs for the month today and looks to have its sights set on last summer's high in the 100.25/35 region. We cannot see investors wanting to fight this dollar rally, given there is so little certainty as to when this crisis will end. And traders, once again on a Friday, will not want to run any short dollar balances ahead of the weekend event risk.

Chris Turner

📉 EUR: Nowhere to hide

EUR/USD is just breaking below 1.1500 in early Europe. European corporates with dollar receivables are welcoming the news, but for the vast majority of European corporates, the higher dollar payables of energy costs are painful. Below 1.1470, there is little support until the 1.1390/1400 lows seen in early August last year.

Another trend that bears watching is the widening in peripheral eurozone sovereign spreads. Our rates team touches on the subject [here](#). Low volatility and the search for carry had seen the markets drive peripheral spreads to very narrow levels indeed earlier this year – e.g. 50bp for 10-year Greece-Germany sovereign spreads. The current widening probably reflects just de-leveraging, but investors will now be tracking government support measures to protect consumers from higher energy prices and what that means for the fiscal outlook. Again, that could be a bigger story for Europe than for the US.

EUR/USD could struggle to make it back above 1.1500/1525 today unless there is some clearly positive news out of the Gulf.

Chris Turner

📉 JPY: Firmly in intervention territory

USD/JPY is now firmly in intervention territory. If we do see intervention, the market will be looking out for whether it is just Japanese intervention, whether the Fed is selling USD/JPY just as an 'agent' for the Bank of Japan or whether this is a fully joint intervention with the Fed doing 'own account' intervention for the US Treasury.

The first two options probably only have a limited and short-term negative impact on USD/JPY, while the third option might be longer lasting and tap into ideas that Washington is ready to fight the recent dollar strength. We felt a couple of weeks ago that one week USD/JPY traded volatility

was too low at under 10%, and it could easily be marked through 12% as USD/JPY threatens 160.

The problem for authorities in Tokyo and Washington, however, is that USD/JPY will not turn sustainably lower until energy prices reverse.

Chris Turner

ZAR: Rand unwind continues

Late last year and into early 2026, long South African rand positions had been some of the most popular. Low inflation and a central bank switching to a new, lower inflation target had encouraged inflows into its local currency bond market. And the rand's exposure to the precious metals story was a major positive as gold and platinum surged. Fast-forward to March, and the low inflation environment is under pressure, higher volatility is forcing de-leveraging of carry trade positions and precious metals are not deriving any further benefit from the inflation shock.

17.00/17.25 is the near-term risk for USD/ZAR, with an outside risk of 17.75 next week if energy prices go another leg higher and global equity markets take another major leg lower.

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