

FX Daily: Case against the dollar continues to build

The dollar has softened a little in quiet markets. US Treasuries have struggled to shake off April's underperformance and a mixture of evidence on de-dollarisation and speculation over deals to devalue the dollar are all weighing. The focus today will be on whether US retail sales held up in April



⬇ USD: Evidence and speculation weighs on the dollar

The dollar is drifting a little lower against major currencies and remains tarnished by April's events. US Treasuries continue to trade on a soft footing, and whether judged against the risk-free SOFR swap rate or German bunds, they have failed to reverse much of the spread widening seen in April. Notably, the correlation between USD/JPY and US Treasury yields – which in normal times is a strong positive – now remains negative.

De-dollarisation is a very hot topic right now and one which we have covered recently in this [article](#). The topic involves a lot of speculation about what might happen, but the evidence is also starting to support the diversification thesis. Earlier this week, we saw data from the Japanese Ministry of Finance for portfolio flows in April. The US and the eurozone will not release similar data until mid-June. The Japanese data showed that foreigners bought \$25bn of Japanese equities and

\$31bn of Japanese long-term debt securities in April. That's the largest combined foreign monthly purchase of Japanese assets on record, going back to 2005. So, instead of April being a month of deleveraging and global asset managers merely downscaling and repatriating, April proved a month of diversification into Japanese assets by foreign accounts. That looks like a big tick in the box of the diversification element of de-dollarisation.

Elsewhere, speculation lingers that US trade deals with Asian nations could involve some kind of currency accord. That seems to be weighing on USD/TWD and USD/KRW. Recall that both Taiwan and Korea, as well as China, Vietnam, Japan, Singapore and Germany, are on the US Treasury's watch list for 'currency practices and macroeconomic policies'. We doubt we will see any accord to deliver stronger currencies, but one can see why the speculation is there and may linger over the dollar for the next couple of months.

Today, the focus is on US April retail sales, which are expected to be flat after a strong bounce in March. We don't have a strong read on the risks to the data here, but we suspect the dollar is more vulnerable to a weaker number. We also have comments from Fed Chair Jay Powell at 1440CET today. If anything, the bounce back in long-term inflation expectations (to 2.5% from 2.3% when looking at the USD 5Y5Y inflation swap) should keep him even more neutral than he has already been. His commentary looks unlikely to move the needle on market expectations of just 50bp in Fed cuts this year.

Barring a blockbuster retail sales figure – and even that could be discounted by way of pre-tariff front-loading effects – we see DXY staying soft. 100.20/25 is short-term support, below which DXY can give back more of its recovery over the last three weeks.

Chris Turner

➔ EUR: Staying supported

EUR/USD has found some decent support under 1.11 and we expect that to continue to be the case. Today's data calendar is very light – just the second reading of eurozone first-quarter GDP – and EUR/USD will again be driven by the dollar story. Regarding diversification away from the dollar, next week will see the March Balance of Payments data for the eurozone. February data had shown strong equity inflows into the eurozone, and another big purchase in March would support survey findings suggesting a shift in focus toward the region.

We see EUR/USD trading in a 1.11-1.15 range over the coming weeks and months, although risks are skewed to the upside. 1.1265 is now decent intra-day resistance.

Chris Turner

➔ GBP: 1Q GDP data may be overstating things

Sterling has not seen a particularly large bounce on seemingly strong first-quarter 2025 UK GDP data at 0.7% quarter-on-quarter. Our UK economist, James Smith, thinks there may be some faulty seasonal adjustments at work here which help first-quarter data but weigh on data in the second half.

Still, we quite like sterling at the moment. And next Monday sees the UK-EU summit, the first since Brexit. More discussion about UK-EU alignment should help the pound. With the dollar looking a bit vulnerable, GBP/USD looks biased to the 1.3360/3400 area short term.

Chris Turner

CEE: Global story favours regional currencies

After yesterday's break, today we will again have a deep dive into the data in the CEE region. First quarter GDP data for Romania was released this morning, showing the economy slowing from the previous quarter from 0.6% to 0.0% QoQ, but still enough for some very modest year-on-year growth at 0.2%. Later, we will also see data from Poland, which should show a similar stagnation from the previous quarter (0.0% QoQ in our forecast) and a slight drop in the YoY pace from 3.2% to 3.0%. Poland will also release the final April inflation numbers, which should confirm 4.2%.

Yesterday, CEE markets caught up with core markets in pricing out recessions, and we could see interest rate differentials widening again. At the same time, EUR/USD moved higher, providing decent support to CEE FX. All three major CEE currencies tested new lows in the EUR-crosses and the positive conditions should last today. We will also be watching the Ukraine-Russia talks in Turkey today. Although the chances of significant progress are low, some progress should be positive for CEE currencies, supporting further gains.

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