

FX Daily: Central bank 'ducking' to leave oil in the driver's seat

The Fed failed to offer any real guidance to the market, setting the script for other central banks to follow today. The result is that oil prices can stay firmly in the driver's seat. Still, in the case of the ECB and Bank of England, the very large hawkish repricing of the past few weeks raises risks of dovish surprises and negative currency impact



We expect the Bank of England to join its G10 peers in 'ducking', keeping rates on hold and avoiding strong forward guidance

USD: Fed puts the focus back on oil

The Fed failed to offer any real guidance to the market on Wednesday ([here is our FOMC review](#)), with Jerome Powell resorting to textbook central banker's "ducking" when asked to assess the impact of the war. At the same time, the Fed did send some signals: it didn't amend its Dot Plot (one cut by year-end) and seemed to lean slightly towards the 'transitory' narrative for inflation.

Markets did sense a hawkish vibe in the press conference, perhaps amplified by Powell's statement that he won't leave the Board until the criminal probe is over. The dollar rose on the back of a 10bp hawkish repricing in 2-year USD swaps, but we wouldn't read too much into it. The lack of guidance by the Fed leaves markets quite free to keep speculating on policy implications of the war and maintains oil prices firmly in the driver's seat for FX.

Other central banks will take centre stage today (more below), and in the US, we'll only be monitoring weekly jobless claims for evidence of the war starting to impact the labour market. Brent is trading above \$110/b this morning, arguing for an extension of the USD rebound.

This means USD/JPY may retest the key 160.0 mark, which might be a line in the sand for intervention. The Bank of Japan meeting this morning offered a bit of support to the yen, mainly due to specific references to raising interest rates if the outlook develops as expected. But like the Fed, the BoJ is failing to offer clear guidance on the war impact, and oil prices will remain the main driver for USD/JPY.

Francesco Pesole

📌 EUR: Lagarde to avoid guidance

The four G10 central banks that have met so far this week have sent mixed signals to the ECB. The Reserve Bank of Australia has brought forward a cut that appeared scheduled for May, the [Bank of Canada](#) stated that it is looking through the inflation bump, the Fed kept its projections for one more 2026 cut unchanged, and the BoJ tried to sound cautiously hawkish.

The ECB has a history of a relationship with oil prices, as discussed in [our ECB preview](#), and the memory of the 2022 inflation scares are likely still vivid. But for several reasons, this is not a 2022 rerun, in our view, and we think it's quite plausible that President Lagarde will use cautious, non-committal language like Powell.

Still, the 55bp hawkish repricing in one-year ECB rate expectations in March means even subtle hints can have an amplified impact on short-term rates. And it's exactly the size of that repricing that makes us think risks are on the dovish side today: matching current pricing would require some degree of guidance that we doubt the ECB is prepared to offer yet.

This translates to some downside risks for the euro, but remember that FX has lost sensitivity to rate differentials as oil prices have taken over the overwhelmingly dominant driver. In other words, the euro didn't benefit from the hawkish repricing, and it shouldn't suffer too much from a dovish re-adjustment. Still, we could be trading back close to 1.140 before the end of the week.

Francesco Pesole

📌 CHF & SEK: Impact from central bank decisions likely short-lived

Other developed European central banks to watch are the Swiss National Bank and the Riksbank. The former is facing a very unwelcome strengthening in the franc, which may well have drawn it back to FX interventions early in March. As discussed in our [preview](#), including references to CHF as "highly" or "very highly valued" may be a signal that the SNB is back in an intervention campaign.

However, with rates already at zero and low appetite to bring them back to negative, and crucially, the US Treasury's eyes on the size of interventions, only a de-escalation can realistically prevent more build-up of EUR/CHF pressure. We are tentatively looking for some stabilisation in the pair and a potential floor at 0.900, but risks remain on the downside in the near term.

In Sweden, we expect a cautious statement by the Riksbank, in line with the ECB. Markets are now

fully pricing in a hike by the RB, but we aren't convinced. Core CPI inflation is running below target (1.7% in February), and Sweden doesn't face the same conditions as in 2022 for amplified second-round effects. But, like the ECB, the longer the war lasts, the more likely a hike will be.

We expect EUR/SEK to stay close to the 10.70-10.80 area in the coming weeks, but our medium-term view remains bearish on the pair. The Riksbank should, for now, stay a very secondary driver.

Francesco Pesole

⬇️ GBP: Eyes on the vote split

As in the eurozone, we are significantly more dovish than markets on UK rates. We assess that conditions in the labour market and the broader economy are materially different from those in 2022 and should heavily limit second-round effects in the UK. As a consequence, the Bank of England will not hike rates like markets are expecting, in our view.

Today's meeting ([preview here](#)) may not be telling us too much about that though. We see the BoE joining the G10 central banks' 'ducking' exercise as they most likely keep rates on hold and steer away from strong guidance.

The vote split will probably have an impact on market rate expectations, but energy prices will remain the main driver unless the BoE sends a clear message that it's inclined to look through the inflation shock. We expect a 7-2 decision to hold, with doves Taylor and Dhingra voting for a cut, an outcome that could be seen as mildly dovish considering how far the hawkish repricing has gone.

We do see dovish risks, and since we still expect two cuts by the BoE, we retain a bullish bias on EUR/GBP for the coming months. Our end-Q2 target is 0.88, which also embeds some political risk associated with May's local elections.

Francesco Pesole

➡️ CZK: CNB will push against rate hikes pricing

The Czech National Bank will decide on rates today for the first time since the beginning of the US-Iran conflict, the second central bank in the region after the National Bank of Poland two weeks ago. A change in rates to 3.50% is not on the table, and the central bank will not publish a new forecast. Therefore, today will be purely about forward guidance. We have seen several board members supporting rate stability and waiting before the start of the blackout.

The CNB is in a comfortable situation in the context of the CEE region. Inflation in February (1.4%) was significantly below the 2% target. The economy is surprising to the upside and is approaching 3% GDP growth this year, the current account is in surplus and the pass-through of oil prices to inflation is the lowest in the region (0.15pp). At the same time, the koruna seems to be the most stable currency in the CEE region, which should dampen inflationary pressures.

We therefore believe that the central bank will push today against roughly two and a half rate hikes priced in, as indicated before the meeting by some board members. The CNB may have little influence on market pricing today because the market will not price out the probability of rate hikes without data visibility. However, we have heard criticism of rate hikes in the supply shock of 2022 from the governor in the past, and we may hear it again today. Therefore, we believe that

the CNB is the last candidate in the region to hike rates.

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