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# FX Daily: Central bankers need to talk tough

Energy prices, risk assets and FX markets continue to bounce around on the latest headlines out of the Gulf. It seems dangerous to position for an early resolution of the crisis, with the Iranians likely to want to take high energy prices as leverage in any negotiations. We have several central bank speakers in Europe today – very likely to sound hawkish

The big focus in Europe this morning will be the 'ECB and Its Watchers' conference. Speakers include ECB President Christine Lagarde

## USD: Too early to expect a sustained sell-off in the dollar

Risk assets are bouncing in Europe on reports that the US has submitted a 15-point peace plan to Iran. The suggestions are that ceasefire talks could potentially start in Islamabad on Thursday. We are not geopolitical experts, but we would have thought Iran would have maximum leverage of high energy prices going into any negotiation. Thus, it is probably too early to expect any big drop in energy prices or a much softer dollar this week. In effect, the US and Israel have military leverage, but Iran has clearly shown it has the economic leverage. The longer the Strait of Hormuz remains shut, the greater the impact on the global economy, where fuel rationing is already coming into effect in some countries.

The US money market curve has now priced out any easing by the Fed this year, and the message coming from Fed speakers is one of patience. The near-term inflation profile will not give the Fed any confidence that CPI is on its way to the Fed's 2% target, and thus the easing cycle is temporarily suspended. It is hard to rule out the market starting to price in Fed hikes as long as the US jobs market does not deteriorate markedly.

We think it is too early to expect another major leg lower in the dollar and can see DXY staying bid in a 99.00-100.00 range this week. Investors are still likely overweight on equities, especially in Europe and emerging markets, and are still positioned for a quick resolution in this conflict.

*Chris Turner*

## EUR: ECB speakers expected to talk tough

The big focus in Europe this morning will be the 'ECB and Its Watchers' conference. Speakers include: Christine Lagarde, Philip Lane, Olli Rehn and Martin Kocher. Expect these speakers to maintain a hawkish front as the ECB tries to keep inflation expectations in check. Presumably, they will avoid saying anything definitive about the chances of an April hike (currently 80% priced by the market), but it does not cost the ECB much to keep all the options on the table. The sharp bearish flattening of European bond curves, including Germany, has been providing some insulation to the euro, although not enough to reverse the overwhelming demand for dollars.

Today also sees the release of the German Ifo for March. Yesterday's flash European PMI releases were a little surprising in that the manufacturing component was not hit quite as much as expected. But the direction of travel for business confidence is clear, the longer this conflict continues.

Barring some surprise news out of Iran that it is willing to negotiate, we suspect EUR/USD struggles to better the 1.1610/30 area, with an outside risk to 1.1670 should some more constructive news emerge.

*Chris Turner*

## GBP: Hawks in control

February UK CPI data released this morning was largely in line with consensus except for the services component which came in slightly higher at 4.3% YoY. Obviously, the February data is old news and the key focus now is on how the conflict and higher energy prices ripple through the UK economy.

We will hear from one of the Bank of England's hawks today, Megan Greene. At last week's BoE meeting, she was concerned about the rise in energy and fertiliser prices impacting food – a key driver of consumer inflation expectations. She has been sounding like she is in the BoE Huw

Pill's camp on inflation and yesterday he said that the 'fog of uncertainty' should not be an excuse for inaction. Comments today from Megan Greene could potentially position her for voting for an April rate hike as well. An April 25bp BoE hike is now 72% priced. We doubt that will be delivered, but we would not fight this trend today.

EUR/GBP has been finding support under 0.8650, but could trade lower again today.

*Chris Turner*

## TRY: Pressure builds

As a major fossil fuels importer, Turkey is at the forefront of the energy supply shock in the Gulf. Our Chief Economist for Turkey, Muhammet Mercan, estimates that foreigners sold about $6bn worth of Turkish bonds and equities in the first half of March. And investors also sold about $12bn worth of their long TRY carry trade positions.

The Central Bank of Turkey (CBT) has been intervening against these outflows and Muhammet estimates that Turkey's net FX reserves have dropped $28bn in recent weeks. Importantly, the focus is on the domestic audience in Turkey and whether Turkish retail head into FX. There are no clear signs of that in the data yet, but TRY is starting to be traded at a premium in the Grand Bazaar.

In terms of what the CBT can do in the current environment, Muhammet sees three options: 1. Continue intervening and using FX raised against gold reserves in that intervention. We think the CBT has around $90bn of usable gold reserves here. 2. Allow a slightly faster decrease in TRY depreciation, but this could be difficult to control, and 3. raise interest rates again after effectively delivering a 300bp rate hike at the start of this Middle East crisis.

Clearly, none of these options are welcome to the CBT and all will be on the table as long as energy prices stay this high. In this environment, we would expect TRY to remain under pressure and TRY implied yields through the forwards to stay very firm. One month implied TRY yields are now 45%, a level last seen in June 2025.

*Chris Turner*

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