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FX

## FX Daily: Choppy trading

FX markets continue to be buffeted by opposing forces and are struggling to define short-term trends. Despite some positive Chinese activity data overnight, Asian currencies are not rallying, suggesting that the recent rebound in the dollar should not be dismissed. Elsewhere, sterling can enjoy some short-term gains on stronger February wage data



Tiff Macklem, Governor of the Bank of Canada. Signs of faster-decelerating inflation could weigh on the loonie today

### ➔ USD: Unmoved by China GDP

On another day, [an upside surprise in Chinese GDP](#) data would have provided a bid to emerging market and commodity currencies and left the dollar slightly offered in a pro-risk mood. That dollar sell-off has been conspicuous by its absence overnight, perhaps for two reasons: i) the 4.5% year-on-year rise in China's GDP was always coming off a low base and ii) the industrial data came in on the soft side suggesting the manufacturing sector might be struggling with weak external demand.

Additionally, we speculate whether some of the dollar strength over the last two trading sessions owes to dollar repatriation for the US federal tax deadline of 18 April. Looking at the seasonality of EUR/USD over the last 20 months of Aprils, however, we would say that the dollar looks more minded to weaken than strengthen. Thus, if the tax issue is relevant, it will

only be a short-term factor.

Today's session is exceptionally light in terms of US data and Fed speakers. Yesterday, the dollar again rallied on the back of a sharp rise in US two-year yields – accompanied by some strong NY manufacturing sentiment data. Today sees March housing starts and also the April NY services activity data. Additionally, we need to keep an eye on how US financials are trading as earnings releases emerge. State Street sold off sharply yesterday on news of large outflows from its investment products in the first quarter. However, the financials component of the S&P 500 rose and even the KBW regional bank index edged higher.

In the absence of strong drivers today, expect DXY to hang around this 102.00 area.

*Chris Turner*

### ➔ **EUR: Lagarde warns of multi-polar world**

Speaking to the Council of Foreign Relations in New York yesterday, ECB President Christine Lagarde echoed recent warnings from the IMF that a geopolitically fragmented world posed a risk to world growth, inflation, and to the dollar's dominance in world trade. We mention this here because we expect these structural factors to combine with cyclical ones over the next couple of years and take the dollar broadly lower. Again on another day, we could have been talking about the overnight release of US TIC data showing another \$10bn decline in China's US Treasury holdings, sending China's holdings to the lowest since 2010. All this will add fuel to the fire of whether the US will continue to enjoy the 'exorbitant privilege' of issuing in dollars.

Back to the short term, EUR/USD struggled to hold last week's gains above 1.10 and for the time being, seems to be consistent with the view recently published in our [FX talking](#) that the second quarter of this year may be too early to expect the dollar decline to unfold. Today's eurozone data calendar should see a modest pick up in German ZEW investor expectations and perhaps even a rare eurozone trade surplus as lower gas prices finally feed through. 1.0975/1.1000 may now prove a tough nut to crack intra-day for EUR/USD.

*Chris Turner*

### ⬆️ **GBP: Strong wage growth is supportive**

We have been [discussing recently](#) whether softening UK data will mean the Bank of England pauses at its 11 May policy meeting. Today's wage data suggest probably not. There was a big upside surprise to the February UK earnings data (at 5.9% 3m/3m annualised versus 5.1% expected). Unless we see some significant slowing in UK March services inflation released tomorrow, it increasingly looks like the BoE will hike 25bp after all.

Sterling has enjoyed a modest lift from today's data which now sees a May 25bp hike priced with an 82% probability. GBP/USD looks like it wants to trade in a 1.2350-1.2500 range near

term, while EUR/GBP could edge back to the 0.8800 area today.

*Chris Turner*

### ➔ **CAD: CPI data today, USD/CAD largely a dollar story**

March inflation data will be released in Canada today and the consensus call is a drop to 4.3% in the headline rate, with core measures also decelerating. All this should be welcome news at the Bank of Canada (BoC), which kept rates unchanged last week and looks likely to stay put until being forced to cut by a deteriorating economic backdrop. The timing of a first rate cut is what can drive some CAD moves for the moment, and the way CPI data can impact the CAD swap curve. For the moment, 15bp of easing is priced in by year-end, but we think markets may be underestimating the chances of BoC rate cuts this year. BoC Governor Tiff Macklem recently said that halting quantitative tightening may be the first measure to counter an economic slump, but that may prove insufficient especially should the Fed step in with large rate cuts.

Signs of faster-decelerating inflation could favour a more aggressive dovish repricing and weigh on the loonie today, although USD/CAD remains primarily a USD story given the BoC policy is a secondary driver. The soft start to the week for oil prices and risk appetite may help build a floor around 1.3400 for now. We only expect a decisive move below 1.30 in the second half of the year.

*Francesco Pesole*

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