

## FX Daily: Close call on a Romania rate cut today

FX markets are waiting on the big next chapter of the 2024 Fed easing story. Details should emerge this week when April US PPI and CPI data are released. A hot topic will also be US-China relations should the White House tomorrow raise tariffs on China's green export industries. On a quiet Monday, we will also be looking at a close call on a rate cut in Romania



The National Bank of Romania in Bucharest

### ➔ USD: US and China to drive the dollar this week

We see two key drivers of the dollar this week. The first is US April price data released on Tuesday (PPI) and Wednesday (CPI). After the dovish FOMC meeting and the soft April NFP sucked the momentum from the dollar's upside, the question is whether price data can actively contribute to the dollar's downside. The bigger risk of that probably comes tomorrow, where any softer PPI readings could point to a lower core PCE deflator figure (the Federal Reserve's preferred inflation reading) on 31 May. Most expect a better 0.3% month-on-month [core CPI reading](#) on Wednesday – but again, that's not good enough for the Fed's 2% per annum inflation target.

Also important for FX markets this week will be US-China relations plus the (albeit small) risk of a

rate cut in China on Wednesday. On the former, tomorrow the White House is widely expected to announce large tariff increases on US imports of Chinese electric vehicles (EVs), solar panels, and batteries. The impact on batteries looks to be more severe than that on an already subdued Chinese EV market in the US. How China responds to such tariffs may have an impact on USD/CNH, where the risk is seen to the topside this week. Additionally, a subdued inflation environment and weak growth are raising speculation over a possible China rate cut (1-year Medium-Term Lending Facility Rate). However, our economist for Greater China, Lynn Song, still believes that [China wants to avoid rate cuts](#) for fear of weakening the renminbi.

The week also sees several Fed speakers, including Chair Jerome Powell tomorrow. But as above, we think US data does the talking this week.

DXY looks likely to continue trading in the middle of a 105.00-105.50 range today, and the biggest chance of a break lower this week may come tomorrow should PPI surprise on the downside.

*Chris Turner*

## ➔ EUR: Market starting to question three ECB rate cuts this year

In quiet conditions, the market is very gently questioning whether the European Central Bank needs to cut rates three times this year after all. Currently, the market prices 68bp of easing, having spent the majority of 2024 pricing more than 75bp. Three rate cuts this year remains the ING house call, but the risk is two. The eurozone data calendar will probably not have a big say in that pricing this week, although the market will be interested in whether the provisional release of first quarter eurozone GDP for this year does get revised from its encouraging 0.3% quarter-on-quarter level. That revision will be released on Wednesday.

Lower volatility conditions are providing a little support to EUR/USD, but it will be the US price data that will determine whether EUR/USD can sustain a break above 1.0800 this week.

*Chris Turner*

## ➔ GBP: Stop-start sell-off

Sterling continues to witness a stop-start sell-off, where Friday's release of a stronger-than-expected [first quarter GDP figure for 2024](#) managed to give sterling some support. We doubt this better-than-expected reading has too much impact on Bank of England thinking – beyond perhaps giving it some room for patience on policy. And we retain our downside bias for sterling over the coming quarters.

The highlight of the UK calendar this week is the March jobs data released tomorrow. However, the BoE has downplayed the importance of these figures, and the timing of the 2024 BoE easing cycle seems to hang entirely on the release of UK April services CPI on 22 May. Additionally tomorrow, the market will want to see whether BoE Chief Economist Huw Pill has any fresh thoughts on the timing of the easing cycle.

Expect EUR/GBP to remain well supported in the 0.8550/75 area now.

*Chris Turner*

## ➔ CEE: Discrepancies in the region

This morning, we will see the publication of April inflation in the Czech Republic. We expect an increase from 2.0% to 2.4% year-on-year in line with market expectations, while the Czech National Bank expects 2.5%. Later today, the Romanian central bank will decide on interest rates and we believe this will be the first live meeting. While a rate cut is [not our baseline view](#) for today, we expect a close call for the potential start of a rate cutting cycle. Tomorrow, Romanian inflation – which we expect to be steady at 6.6% YoY – and industrial production will be released. On Wednesday, flash estimates of first quarter GDP will be released in Poland (1.5% YoY) and Romania (2.8% YoY), and also we will see final inflation numbers in Poland for April. A day later, the National Bank of Poland will release core inflation. This week, we also have speakers scheduled in Hungary. On Tuesday, the National Bank of Hungary's Deputy Governor Barnabás Virag and Minister Márton Nagy are expected to speak at the same event.

We continue to see value in PLN, while CZK and HUF still look overvalued. The NBP left market rates almost unchanged, while the first reaction of PLN was to weaken back to 4.300 per euro. However, like last week, we see fairer levels in the 4.280-290 range. On the other hand, EUR/CZK closed below 25.00 for the second day in a row. Inflation may give a fresh impulse to rates today, but we still see more of a leg up to 25.10 before a longer-term strengthening of the CZK. EUR/HUF has also held below 390 for a few days, but as with the CZK, we see even more disconnect here from rates which have fallen significantly in the last two weeks. HUF should follow well above 390 per euro, in our view.

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