

FX Daily: Conditions continue to settle ahead of US data

Financial markets are reopening with a mildly positive mindset after a long weekend in many countries. Measures of emergency dollar borrowing are starting to slow and equities appear on a slightly steadier footing. Today's session will focus on US small business optimism ahead of important US releases later in the week. Dollar to stay mildly offered



📉 USD: Cautious optimism prevails

A sense of cautious optimism remains in financial markets as various measures of financial stress modestly ease back after last month's US banking crisis. Evidence for those of a bullish mindset is the small drop in emergency dollar demand through the Fed's discount window and the fact that the Federal Home Loan Bank system has had to issue much less debt in support of US regional lenders. It remains a very tricky trading environment, however, given many experienced commentators are refusing to dismiss last month's events as a one-off and instead prefer to see bank failures as a harbinger of forthcoming stress in the global financial system.

What will be key to the bullish story is the Fed's ability to cut rates later this year to offset the impending credit crunch. This week's [events calendar](#) will shed some light on that. Tomorrow will probably be the most interesting day of the week, where the US March CPI should make the case for a 25bp Fed hike on 3 May (18bp currently priced), while the FOMC minutes will reveal some of

the Fed's thinking behind March's 25bp hike in the midst of a banking crisis. Any signs that the Fed is very close to a peak in rates – and that it will have the ability to cut rates if need be – would be seen as risk-positive and dollar negative.

For today, the focus will be on the NFIB small optimism index. Any sharp fall in optimism and especially a further drop in pricing intentions could soften the dollar slightly. DXY can probably drift back to the 102.00 area.

Chris Turner

📈 EUR: 1.10 is holding EUR/USD for now

Recent public holidays may well have played a factor in keeping EUR/USD below 1.10 and the pair only saw a muted reaction to what was a [good US March NFP](#) release last Friday. Potentially, EUR/USD could have come a lot lower on this after it firmed up expectations for a 25bp Fed hike on 3 May. Instead, EUR/USD is trading in a narrow range and waiting for its next major input, probably from the western side of the Atlantic.

More locally, the eurozone today sees the April Sentix Investor Confidence survey and February retail sales. The week will also see several ECB speakers – especially at the Spring IMF meetings in Washington. Here the market currently prices a 25bp ECB hike in May (we agree) but only 12bp of further tightening in June. [Our team thinks](#) we could see a further 25bp tightening in June too – leaving the ECB deposit rate at 3.50% – which would then mark the plateau and unchanged rates into the second half of 2024.

EUR/USD can edge back up to the 1.0930/50 area today assuming that equities stay mildly bid and the US NFIB data emerges on the soft side.

Chris Turner

➔ GBP: BoE Governor Bailey in Washington this week

Markets currently price a further 25-50bp of Bank of England (BoE) tightening this summer. We think the risk of a pause at the current 4.25% Bank Rate is under-priced. Shedding light on this topic will be UK data and speeches from key BoE officials this week. On the former, Thursday sees the UK February monthly GDP and also the BoE credit conditions survey. Tomorrow sees the BoE Governor speaking on the subject of the 'The shifting risk landscape', where he perhaps can shed some light on the balance between getting inflation under control and the risk of over-tightening.

EUR/GBP has just about been keeping its head above the 0.8750 support level. We favour a return to the 0.89 area. And our base case is that GBP/USD may struggle to sustain a break above 1.25 this quarter – whilst the Fed is still in the last stages of tightening.

Chris Turner

➔ CEE: Rally is slowing down

Today's calendar is basically empty in the region, but things will get more [interesting](#) in the coming days. March inflation in Hungary will be released tomorrow. We expect a drop from 25.4% to 24.8% year-on-year, slightly below market expectations. Hungary will also release state budget data, which has come under pressure in the first two months, and Czech labour market data. On

Thursday, we will see March inflation in the Czech Republic. We expect a drop from 16.7% to 14.8% YoY, slightly below market expectations. And March inflation will also be released in Romania where we also expect a drop from 15.5% to 14.2% YoY, slightly below market expectations. On Friday, the inflation saga will end with final numbers in Poland, which should confirm the 16.2% posted earlier.

We will also have two interesting sovereign rating reviews on Friday in Romania and the Czech Republic. In Romania, S&P maintains BBB- with a stable outlook. We do not expect any changes, but at the same time we see a 25% chance of an upgrade in the outlook to positive. In the Czech Republic, S&P holds AA- with a stable outlook and we do not expect any changes here either. However, Fitch and Moody's has already downgraded the outlook to negative in the past year and the risk is thus down.

Positive conditions still prevail in the CEE FX market, however, we expect the current rally to start running out of steam. EUR/USD is struggling to reach 1.10 and we don't see much room for further risk premium reduction in the EM space. Moreover, inflation numbers this week may return dovish expectations to the region, which should put the brakes on the current FX rally. The Czech koruna and the Hungarian forint remain our favourites, but the room for appreciation is getting thinner. For now, we see a gravity point at 23.30 EUR/CZK and 375 EUR/HUF.

Frantisek Taborsky

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.