

FX Daily: Constrained dollar, global euro?

Tariff drama left the dollar weaker in April, and the recent short-lived Trump-EU spat is no exception. With market concerns on the US deficit still playing a role, the downside risks for the dollar remain tangible, unless data comes to the rescue. Meanwhile, Lagarde is speaking about a “global euro moment”, but is there enough political backing?



If there's a lesson to be learnt from April, it's that the dollar bears the brunt of tariff drama

📌 USD: Deficit concerns and tariff drama hangover can bite

We shouldn't be surprised to see the dollar softer at the start of the week, even with US President Donald Trump reversing course on 50% EU tariffs. It's not a case of the greenback suddenly rediscovering its safe-haven status – by most measures, it hasn't – but more a reflection that markets had largely filed tariffs under “April risks”. The focus for May and beyond was supposed to be on trade deals. Admittedly, some agreements were always going to take time, and the EU never looked like an easy one. Still, the renewed standoff between Trump and the EU is a reminder that tariff threats and delays can re-emerge quickly. If there's a lesson from April, it's that the dollar bears the brunt of tariff drama.

Our short-term fair value model, which looks at the past year's FX correlations with rates and equities, still points to the dollar being highly undervalued: around 4% versus the euro, sterling and Canadian dollar, 3% versus the Japanese yen and Aussie dollar. But for now, we have to set that aside; the greenback still isn't trading in line with the classic market drivers. In many respects, it's

behaving more like an emerging market currency, where investors are fixated on public finance sustainability, watching capital flows closely, and forced to factor in unpredictable policy moves. The decoupling is clear – the 60-day correlation between 10-year Treasury yields and DXY started the year at 0.68, and now sits at zero.

For now, the best hope for the dollar is that incoming data calms recession worries. That's needed, as deficit concerns are starting to shake the dollar's already fragile footing. As James Smith noted in his [week ahead preview](#), it's not so much that Trump's spending bill blows out the deficit overnight, but more that this was a rare opportunity for Congress to address the deficit issue, and it's been missed. The risk is that US creditworthiness worries remain a drag into the summer, as Treasury auctions could still point to lukewarm demand.

Today, the Conference Board Consumer Confidence index is expected to rebound due to the effect of the US-China deal and equity markets' recovery. It's expected around 87, but we think the dollar may require a return above the 90 mark to start pricing out the growth risks. Durable goods orders for April are also released and expected to come in weak after the abnormally strong March figure. The data calendar for the rest of the week includes personal income, PCE and the latest Federal Reserve minutes.

FX liquidity was thin on Monday due to a US and UK public holiday. Today, we'll get a better sense of direction. Our view is that the balance of risks remains skewed to the downside for the dollar due to deficit concerns and trade uncertainty, unless US data comes in convincingly stronger than expected. A retest of the 98.0 April lows in DXY looks more likely than a rebound to 100.0 at this point.

Francesco Pesole

EUR: Global euro moment may face political roadblock

The euro has come through the US tariff scare with barely a scratch. As discussed above, markets' tendency to punish the dollar when trade tensions escalate means a rotation to the liquid euro often prevents the idiosyncratic risks for the eurozone from being priced in. EUR/USD touched 1.1420 on Monday before drifting just below 1.140. With normal trading volumes returning, the pair could inch higher again today.

European Central Bank President Christine Lagarde's comments yesterday were notable – she talked about a potential “global euro moment,” arguing that coordinated government action could boost the euro's international role. Part of the recent overvaluation in EUR/USD likely reflects this narrative. If European policymakers continue to push the idea, we could see strategic long positions in the euro build even faster. Lagarde's enthusiasm is understandable; a stronger, more global euro supports bond market stability and keeps rates lower, while nominal appreciation helps cap inflation. But exporters are already voicing concerns about the strong euro, and national governments, especially those with stronger finances, may be less keen, as they already enjoy low borrowing costs.

As discussed [here](#), a currency's global appeal hinges on the depth of its bond market. Competing with the dollar would mean the euro needs a reliable plan for continuous common EU debt issuance, not just occasional moves like for the pandemic response. Political fragmentation in Europe also remains a headwind to the grander ambitions for the euro's global role, so we'd caution against too much optimism on that front. Still, any serious moves in this direction would

likely push EUR/USD even higher.

There's little on the eurozone data calendar until Friday, when Germany, Spain, and Italy release May CPI numbers. Upside potential for EUR/USD following the recent deficit concerns in the US is likely to extend to 1.150. At that level, markets would, however, require additional catalysts to stay long the pair. Our view remains that EUR/USD will ultimately settle back around 1.130 by the end of June.

Francesco Pesole

➔ NZD: RBNZ to cut, rate projections in focus

The Reserve Bank of New Zealand is widely expected to cut rates by another 25bp to 3.25% tonight (announcement at 04:00am CET). The Bank will also publish the new Monetary Policy Statement, which includes policy rate projections. The latest update from February had rates bottoming at 3.0% at the end of 2025. That was before "Liberation Day", and the year-end projection might be revised below 3.0%.

Markets are, however, starting to have some doubts about how far rates can be trimmed. The NZD OIS pricing for the last meeting of 2025 (in November) is at 2.85%, having risen over 10bp since early May. That's because growth risks have abated after the US-China deal, allowing more focus on a not-so-convincing inflation picture. Non-tradable inflation surprisingly accelerated in the first quarter, while the more forward-looking two-year inflation expectations have rebounded to 2.3% from 2.06%. Meanwhile, PMIs have been resilient, and first-quarter data showed no dip in retail sales, while unemployment failed to climb.

We think the Kiwi dollar is in a good position. Even if the RBNZ ends up signalling it can take rates below 3.0%, the negative impact for NZD may not be long-lived. Inflation prevents markets from going too aggressive on RBNZ cuts, and recovering sentiment on China and in global equities can keep fuelling demand for the high-beta NZD. We think NZD/USD can eye 0.610 in the coming weeks.

Francesco Pesole

⬆ CEE: Hungarian central bank to leave rates unchanged

Yesterday's data in the CEE region showed [a promising start for the Polish economy](#) in the second quarter, with retail sales data surprising to the upside in April and [improving sentiment](#) continuing across the Czech economy in May.

The National Bank of Hungary meeting is on the calendar today. We, in line with the market, [expect](#) rates to remain unchanged at 6.50%, mainly due to high inflation expectations and global uncertainties. We do not rule out the possibility that the situation in the last quarter of the year could allow for some easing, but we see little chance of this for the time being.

On Friday, we'll see the first GDP estimate for the first quarter being published in Turkey and the second estimate in the Czech Republic. Inflation for May will also be published in Poland. We expect headline numbers to remain unchanged at 4.3% year-on-year, while core inflation probably increased slightly. Upward pressure from core inflation was compensated for by even deeper declines in fuel prices in annual terms.

In markets, CEE currencies should remain supported by a weaker US dollar and positive headlines from EU-US trade discussions. On the other hand, Ukraine-Russia negotiations are going nowhere, which supported stronger FX in the region early last week. Still, with the postponement of potential tariffs, we should see some rate repricing up in CEE rates, which should also support FX. Overall conditions for CEE are bullish, in our view, at the start of the week.

If the National Bank of Hungary delivers the hawkish tone we expect, this should additionally push EUR/HUF back towards 402 – although we believe the medium-term picture for the forint is more bearish. EUR/PLN went near local lows yesterday, but the main driver will be the second round of the presidential election this weekend.

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