FX Daily: Consumer confidence is a major test for the dollar

US consumer confidence data is released today and is anticipated to show further deterioration. We are slightly more pessimistic than consensus expecting 93.0, and we mostly see downside risks for the dollar today. In other events today, expect a statement by Russia and the US on Ukraine ceasefire talks, while Trump may unveil details of car tariffs

USD: Consumer story to deteriorate further

Yesterday's PMIs surprised on the upside in the US while jumping less than expected in the euro area, helping the euro-heavy DXY index find support into the 104.0-104.50 area. However, the surveys highlighted a growing gap between the contracting manufacturing sector and the rebounding services sector in the US. Markets are keenly watching for clearer signals on where to place activity-related USD bets.

The Conference Board Consumer Confidence surveys published today are the biggest release for the week in FX. A great deal of the market's pessimism on US macro has stemmed from soft consumer figures, and the 14.5-point drop in the Conference Board sentiment index between

November and February contributed to the major rotation from US to European equities that underpinned the EUR/USD rally. Consensus is rather sparse, but broadly centred around another substantial decline, from 98.3 to 94.0. Our economist expectation is 93.0.

Even if the drop is a bit less pronounced than expected, markets may struggle to see much silver lining for the dollar. We still think the second half of the week can show more broad-based dollar gains as the 2 April tariff deadline approaches (car tariff details to be unveiled this week) and core PCE at 0.3% MoM (Friday) can keep a cap on dovish Fed bets. But for today we see mostly downside risks for the greenback.

The US calendar also includes new home sales for February, which are expected to be quite strong, and the Richmond Fed Manufacturing index, which may well fall back into negative territory given the PMI indications.

Francesco Pesole

EUR: Eyes on Ukraine-Russia developments

Our original working assumption for this week was that the euro could still squeeze some data-linked optimism from the German fiscal bazooka. But yesterday's PMIs were underwhelming considering previous indications from the ZEW. The other side of the coin is that markets may not be expecting anything too big from the IFO surveys today, leaving room for a positive surprise to lift the euro.

What may, however, be more relevant for the euro is any headline coming from Saudi Arabia, where a US delegation met with Russian counterparts yesterday following talks on Monday with Ukrainians. Russia and the US are reportedly due to issue a statement today about the progress of negotiations. Indications that some agreement is building around a full ceasefire would support European sentiment and the euro. Barring that, fading optimism on a quick truce can make generally overvalued (in the near term) European currencies trade on the soft side.

EUR/USD traded back below 1.080 yesterday. We see upside risks today given the US consumer confidence risk event, but our preference remains for a depreciation to <1.07 in April.

Francesco Pesole

AUD: February inflation tonight

Australia releases CPI data for February tonight, with consensus looking at a third consecutive 2.5% YoY headline print. The trimmed mean re-accelerated in January from 2.7% to 2.8%, causing new troubles for the RBA, which started easing last month.

We suspect the full-time-led drop in employment in February (-52k) needs to be matched with some new disinflationary signs to convince markets to fully price back a cut by May (April looks off the cards). Our call for the terminal rate is 3.35%, so 75bp of easing, although the pace and timing of further cuts are highly data-dependent and admittedly quite uncertain.

That said, the RBA is a secondary driver for AUD compared to tariff news and global risk sentiment. AUD/USD is not particularly cheap based on short-term drivers (rates and equities), and we still expect some downside risks to 0.62 in April as tariff risks intensify.

Francesco Pesole

JPY: Yen bulls mull positions

The big difference between this year's decline in USD/JPY and that seen last July and August is positioning. Last year's yen rally was all about the short covering of yen positions as the carry trade was unwound. This year's decline in USD/JPY has been driven by investors (mainly asset managers) actively taking a long position in the yen. Driving those investment decisions may well have been diversification from the dollar and a view that the yen is one of the most undervalued currencies in the G10 space – a view with which we agree.

However, speculative long yen positioning has recently become quite stretched and the recent bounce in US equities and US yields have managed to shake out weak yen longs. Depending on the US data, USD/JPY could correct through the 151.25/30 area to a best-case rate of 152.50 this week. We wouldn't chase USD/JPY too much higher from there, though, given what could be a rough week for risk assets next week when US reciprocal tariffs are announced. And we're still sticking to our non-consensus view of a Bank of Japan (BoJ) hike in May – which could also trigger some independent yen strength were data or BoJ-speak to prove supportive.

Chris Turner

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com