

## FX Daily: Crisis playbook keeps dollar offered

The dollar continues to trade on a soft footing as measures of dollar money market stress gradually ease. The Fed's crisis playbook of dollar liquidity supplying operations allows investors to focus on the 2H23 Fed easing cycle. For today, look out for the US Jolts jobs data, a speech from BoE's Huw Pill and also what should be hawkish comments in Romania.



The Reserve Bank of Australia governor, Philip Lowe

### 📉 USD: Will Jolts job opening data finally drop sharply?

The DXY dollar index is now around 3% below its stressed peak of mid-March. Casting across financial markets we see (i) levels of interest rate volatility (MOVE index) and FX volatility continuing to fall, (ii) measures of dollar funding stress (cross-currency swaps and interbank credit spreads) narrowing a little further, but (iii) no rebound at all in the KBW US regional banking index, which suggests it is too early for investors to find value there.

Actions by the Fed to address dollar money market stress (the new Bank Term Facility and the increased frequency of dollar swap auctions) have allowed investors to (correctly) draw the conclusion that tighter credit conditions make a US hard landing and a sharp Fed easing cycle more likely - a cleanly bearish story for the dollar. Helping the Fed in this task would clearly be some welcome US data. This would ideally show both easing price pressures and signs of easing constraints in the US labour market. On that front, today sees the release of US Jolts Job Opening

data for February. A sharp decline here would probably be read as a mildly bearish dollar factor - adding support to the 2H23 Fed easing cycle.

DXY can probably stay offered near 102.00 ahead of Friday's NFP and further readings (on Thursday evening) on US bank takeup of Fed funding facilities.

Elsewhere, AUD/USD is mildly lower overnight after the Reserve Bank of Australia left the policy rate on hold at 3.60% and softened its forward guidance. Tonight will also see a Reserve Bank of New Zealand policy meeting. [Here we look for a 25bp hike](#), which could provide some support to NZD/USD.

Chris Turner

## 📈 EUR: ECB hawks still pushing for a 50bp hike in May

EUR/USD remains well supported and not far off recent highs at 1.0900/0930. It seems investors are happy to differentiate between the health of the banking sectors in the US and Europe - a point that our team made [in this article](#). Calming tensions in US money markets are allowing a refocus on narrower EUR/USD rate differentials - having narrowed around 50bp since early March. On that subject, ECB hawks such as Austria's Robert Holzmann overnight suggested that a 50bp ECB hike was 'still in the cards for May'. That would seem unlikely (a 22bp hike is currently priced), but serves as a reminder that the ECB lags the Fed in its tightening cycle and that the ECB will be a lot slower to ease policy.

There is not much Eurozone data today, but a further decline in PPI - expected at 13.3% YoY in February - would be welcome. Overall we suspect that the market will be reluctant to chase EUR/USD above 1.10 yet given concerns about the regional US banking system. But a higher EUR/USD certainly looks the direction of travel for the rest of the year.

Chris Turner

## ➡ GBP: Look out for a speech from Huw Pill

Sterling continues to perform well and is certainly taking advantage of a weaker dollar. GBP/USD is now approaching strong resistance in the 1.2450/2500 area. These levels could be tested today should the US data come in on the soft side. For today, the market will be interested in a 1630CET speech from Bank of England Chief Economist Huw Pill.

ING's UK economist, James Smith, thinks the BoE tightening cycle may [well have concluded](#) with the 25bp hike to 4.25% last month. This is at odds with market pricing of an 18bp hike at the May meeting and a further 41bp of tightening this summer. Should Huw Pill choose to play up the welcome signs of easing constraints in the UK labour market, expectations of future BoE tightening may dwindle and sterling should weaken. For that reason, we are reluctant to call for an early GBP/USD break above 1.25 and equally we think EUR/GBP should stay supported ahead of 0.8750. We continue to target 0.90 later this year for EUR/GBP.

Chris Turner

## 📈 RON: Mildly hawkish tone from NBR

On today's agenda is the meeting of the National Bank of Romania (NBR). We [expect](#) rates to

remain unchanged, but also a bit more hawkish tone. The macro picture remains relatively positive compared to CEE peers and inflation, while on a bumpy road, is clearly headed lower. The main theme at the moment is rather market liquidity and pressure on FX. Robor, the money market rate, has fallen below the key central bank rate. The RON has come under pressure recently, reaching NBR intervention levels for the first time since the beginning of the year. It is possible that the central bank will have to return to hawkish communication and be more aggressive in the FX market.

Yesterday saw a slight EUR/RON reversal, suggesting that selling pressure on the RON does not have a very strong base. Perhaps part of the market was betting on the possibility that the NBR will let FX go higher - the last few days have shown that it is too early for this move which, together with tighter liquidity conditions, may drive the EUR/RON market lower.

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