

FX Daily: Data adds pressure to fragile dollar

A fall in US job openings yesterday put recessionary fears back in focus. Today, we think USD is highly vulnerable to sub-consensus readings in the ISM services index. EUR/USD may break 1.10 at any time but could struggle to rally much further. Elsewhere, the RBNZ shocked markets with a 50bp hike; while it may tighten again, rate cuts now look much more likely



📉 USD: All eyes on ISM after job openings drop

The rapid repricing in Federal Reserve rate expectations in the second half of March had very little to do with data but was driven by fears of a deeper slowdown in the US economy because of the financial turmoil. In the run-in to yesterday's US JOLTS data, markets had refined their views on the Fed's policy path, thanks to the abatement in banking concerns and some hawkish comments by Fed officials, which had ultimately allowed some dovish bets to be gradually scaled back.

The reaction to the 630k drop in US job openings in February (much more than expected) saw a sudden resurgence of those easing bets: markets are currently pricing in around 80bp of cuts by

year-end, compared to around 60bp before the JOLTS data. The implied probability of a May rate hike dropped from 65% to 47% after the release. We think this is a testament to how Fed expectations remain highly volatile – in our view, due to the Fed's unclear communication. This is especially true considering that despite the large drop in job openings, there are still 1.67 jobs available for each unemployed person in the US: this ratio was 1.2 before the pandemic, when the US labour market was in a strong position.

In FX, the dollar took another hit, and its outlook for the rest of the week still looks quite binary. Markets are clearly attaching more recessionary risks to the dollar, but – we want to reiterate this point – it appears that the Fed has not provided any solid anchor to rate expectations so more subdued readings in key releases can definitely bring more downward pressure to the dollar. On the contrary, above-consensus readings could prompt a rapid rebound in the very volatile Fed funds pricing and trigger a dollar correction.

Today, the ISM services index will be the big market mover, and the consensus is looking for a decline from 55.1 to 54.4. Back in December, a one-off drop below 50 sparked recessionary panic and crippled the dollar. Now, the combination with yesterday's decline in job openings could mean that even prints in the 52-53 area could have a similar effect, as markets see more than one high-frequency piece of data moving in the direction of economic slowdown. With that in mind, we think the balance of risks is skewed to the downside for the dollar today. ADP jobs numbers will also be examined quite closely. Despite not being statistically a very good predictor of official payrolls, they will probably be watched more closely today after yesterday's JOLTS data put the focus on jobs.

Francesco Pesole

EUR: European currencies still driven by the dollar

There is no market-moving data in the eurozone today, and the dollar will once again be driving EUR/USD. A below-consensus ISM services reading could trigger a break above 1.1000, although the sustainability of rallies beyond that level in the coming weeks would need to be tested against the markets' confidence to consistently unwind defensive dollar positions at a time when fresh financial turmoil and tighter liquidity remain non-negligible risks.

On the European Central Bank side, we'll hear from the ECB Governing Council members Boris Vujcic and Bostjan Vasle, as well as Chief Economist Philip Lane. The risks of surprise remarks by ECB officials appear to have moderated lately as most key speakers have recently aligned (in line with their position in the dovish/hawkish spectrum) with a pledge to keep raising rates.

Elsewhere in Europe, the G10 top performer of 2023, the pound, hit a 10-month high by breaking the 1.2500 resistance yesterday. That initially caused EUR/GBP to fall to 0.8730, although it then rebounded back to 0.8770. While we don't see reasons to dislike cable in the very near term as long as the dollar momentum remains soft, we continue to favour a higher EUR/GBP in the remainder of the year on the back of our view that Bank of England tightening expectations are overdone. We target 0.89 by the summer, and 0.90 by the second half of the year.

Francesco Pesole



NZD: RBNZ shocks markets with a 50bp hike

The Reserve Bank of New Zealand surprised markets with a 50bp rate hike overnight. Despite the quite evident downside risks to the economic outlook, policymakers highlighted how “Inflation is still too high and persistent, and employment is beyond its maximum sustainable level”.

Interestingly, the impact of recent severe weather events in parts of the country was also seen as primarily inflationary, and the Bank actually pointed to the rebuilding effort supporting demand.

When it comes to two key drags on New Zealand’s economy - slowing global demand and housing - the assessment was also far from alarming, as the statement mentioned tourism as an offsetting factor for declining export revenues and the fall in property prices being consistent with tighter monetary conditions.

In terms of forward guidance, the tone was somewhat softer: “Looking ahead, the Committee is expecting to see a continued slowing in domestic demand and a moderation in core inflation and inflation expectations. The extent of this moderation will determine the direction of future monetary policy.”

NZD/USD jumped more than 1.0% after the hike but then halved its gains. While markets almost fully price in another 25bp rate hike, this is not a given. There is a chance the RBNZ has front-loaded tightening but may struggle to push tightening further if inflation fails to stay high. That said, even in the event of another hike and the 5.50% projected peak rate being reached, we think the chances of rate cuts by the end of the year have now increased materially, and markets are likely underestimating them. This is why we would be wary about chasing NZD rallies, especially in the crosses.

Francesco Pesole

CEE: NBP follows stable rates in region

Yesterday's decision by the National Bank of Romania (NBR) to leave rates unchanged did not bring much new news. The statement did not show particularly new views or a hawkish bias as we expected. At least on the macro side, the NBR confirmed the positive surprises coming from the economy. Otherwise, inflation is in line with the central bank's expectations and so overall, we cannot expect any changes in monetary policy. The next meeting will be in May, but at the moment we cannot expect any changes going forward either. From an FX perspective, the pressure on a weaker RON has subsided and if anything we see the currency following the global story, i.e. a higher EUR/USD, which is positive for the whole CEE region including the leu. However, we do not expect the leu to break out of earlier ranges and given that inflows into ROMGBs have weakened compared to January and February, we do not find support for a larger EUR/RON move lower here either.

Today it is the turn of the National Bank of Poland (NBP) to complete the April round of central bank meetings in the region. We don't **expect** any changes in rate settings here either. The incoming data points to a weakening economy but at the same time, to persistent inflationary pressures. Today we will only see the NBP decision and statement. Tomorrow at 3pm local time we will see Governor Adam Glapinski's press conference, which is sure to draw attention. The market is pricing in about a 60bp rate cut by year-end at the moment, while we don't expect a change in rates this year. The governor normally tends to be on the dovish side, however, it is hard to move current market expectations in an even more dovish direction. At the same time, it is hard to

imagine any NBP support for the Polish zloty. The zloty unsuccessfully tested the 4.670 EUR/PLN level and is unlikely to get the impetus to go lower these days. Therefore, we expect it to remain in the 4.670-4.690 range.

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