

## FX Daily: Dollar awaiting bullish catalyst

The dollar looks cheap in the near term as it is still to benefit from the hawkish repricing of Fed rate expectations and higher Treasury yields. The catalysts for a higher dollar may come from tomorrow's US CPI but also from various central bank decisions. In New Zealand, the RBNZ may fail to endorse rate cut speculation



### USD: The case for a dollar rebound looks strong

Short-term rates and the dollar have continued to diverge since Friday's US jobs report. The 2-year USD swap rate is now trading at 4.67%, the highest since November, but the dollar is struggling to draw any real benefit. There are two factors at play here: first, risk sentiment (i.e. equity performance) has not taken the hit from the hawkish repricing in Fed rate expectations. When we think of the dollar benefitting from higher USD rates, there is often an implicit assumption that risk sentiment will deteriorate as a collateral effect and fuel safe-haven flows into the dollar.

Secondly, G10 rate expectations remain too dependent on the Fed pricing. In Canada, for instance, inflation has surprised to the downside, and the economy lost jobs in March, but the first rate cut is not expected before July, like the Fed. Despite quite different domestic stories, the Bank of Canada-Fed pricing diverges by only -10bp by year-end. Even the pricing for the ECB's total 2024 easing has shrunk by 10bp since the start of April despite eurozone inflation data undershooting expectations.

The case for a higher dollar in the near term is quite clear to us at this point, but we also cannot dismiss the possibility that a material USD rally will be delayed until the divergence between the Fed and other developed central banks becomes more evident. We'll see whether dovish messages by the Bank of Canada tomorrow and the ECB on Thursday can assist a rotation back to the greenback; we suspect they will.

The US CPI release tomorrow is obviously a big risk event for the dollar, but if consensus is right and core MoM inflation prints 0.3%, the room for a dovish repricing in Fed expectations should shrink further. Today, the only data release in focus is the NFIB small business optimism index.

Francesco Pesole

## ↓ EUR: Stretched to the upside

We have published [April's ECB Cheat Sheet](#), where we discuss what we expect for rates and FX ahead of Thursday's policy meeting. In line with our USD call above, we deem EUR/USD as expensive at the current levels, and the European Central Bank opening the door to a June cut may well be the catalyst for a correction in the pair. We see the short-term risks as skewed to sub-1.08 after the ECB.

Today, the only data release in the eurozone is the ECB lending survey. Still, with consensus and markets increasingly confident about the path and timing of monetary easing, it seems unlikely that the euro will stage any major idiosyncratic moves before we hear from Christine Lagarde. The dollar leg is likely to drive the pair for now.

Elsewhere in Europe, the pricing on a May cut by the Riksbank has been halved over the past week, now at 11bp. Along with the spillover from the Fed's hawkish repricing, we sense that markets are acknowledging how much a move in June depends on the krona's resilience. This has been confirmed by post-meeting comments from Riksbank officials, who continued to stress how a weaker SEK is a major risk for disinflation. SEK still looks fragile in the short term, but the upside risks for EUR/SEK may be capped at around 11.60/11.70 as markets would likely price out a May cut as the pair rises. The next key events for SEK are GDP data tomorrow and CPI on 12 April, along with more Riksbank commentary, including today's speech by Deputy Governor Martin Floden.

Francesco Pesole

## ↑ NZD: RBNZ may disappoint dovish bets

The Reserve Bank of New Zealand announces monetary policy tomorrow morning (0300 BST), and we expect rates to be kept on hold, in line with consensus and market pricing. Policymakers are facing some relatively dovish expectations compared to their guidance; markets are now pricing in 10bp of easing for July and 24bp for August, while February's RBNZ projections signalled no cuts in 2024.

We doubt the RBNZ has enough incentive to turn drastically more dovish at this meeting. GDP came in below expectations at -0.1% QoQ in the fourth quarter, but a shallow recession looks unlikely to be enough to prompt early cuts by itself. The RBNZ's new remit only includes inflation targeting, and there are lingering upside risks to prices, mostly related to a sharp rise in net immigration.

So, market focus will be on forward-looking language, and since we think that will not shift enough to the dovish side to endorse market pricing, there could be upside potential for NZD in the crosses. A cheap USD makes us less optimistic about NZD/USD in the near term, though, with risks of a correction back to sub-0.600 levels.

Francesco Pesole

## ➔ CEE: Hawkish repricing keeps FX stronger

Monday's trading brought little change in CEE FX, but it's still worth mentioning. EUR/PLN moved below 4.280 and tested new lows from pre-COVID levels. As we warned yesterday, the echoes of NBP hawkishness kept pushing market rates up, especially at the short end of the curve, once again improving PLN fundamentals. We still see more fair EUR/PLN around 4.280, but if the paying flow continues, we are unlikely to go back up in the coming days.

EUR/CZK has moved slightly up the current 25.250-350 range. However, rates still point more to the lower levels, which may be the case today. On the other hand, we still see HUF overvalued, holding for a second day below 390 per euro, the levels seen in late February. For both currencies, though, we see inflation prints later this week as a breakout, as we discussed here yesterday. In both cases, we would rather expect weaker levels given possible repricing of rate cut expectations.

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