

FX Daily: Dollar bounce has been lacklustre

One might have thought that news of formal trade talks between the US and China would have seen the dollar better bid. In fact, the dollar is struggling to hold a 0.5% rally against the big winners in April: the yen and Swiss franc. It's a busy day in FX, with Scott Bessent's testimony and a Fed meeting tonight. We'll also see rate cuts in Poland and Czech Republic



The dollar rally on news of US-China trade talks has been unimpressive

➔ USD: Dollar rally unimpressive so far

Last night's news that the US and China would begin [formal trade talks on 10-11 May](#) to de-escalate the tariff war saw the dollar briefly spike 0.4/0.5%. Remember that in April, the defensive yen and Swiss franc currencies were the big beneficiaries of 'reciprocal' tariffs and the uniform sell-off in US asset markets. In theory, then, de-escalation should see USD/JPY and USD/CHF lead the recovery. Arguably, the weak bounce overnight in USD/JPY is a little more notable given the heavy, one-way positioning long yen. But no, the rally in USD/JPY has been quite modest. We also note that the 10-year US swap spread (Treasury versus swaps) continues to trade quite wide at 55bp, suggesting some concerns around Treasuries remain. In other words, then, despite the nice recovery in US equities, there still seems to be a sense of hangover in the FX and bond markets.

For today, we see two important US inputs to the dollar story. The first is Treasury Secretary Scott Bessent's testimony to the House on the 'State of the International Financial System'. This starts at

16CET. Presumably, he'll argue that US bond markets are functioning in an orderly manner and probably repeat the mantra that Washington retains a strong dollar policy. It will be interesting, however, if he's quizzed on whether currency deals are part of the trade negotiations currently underway with 17 other trading partners. Remember that [USD/Asia pairs like USD/TWD and USD/KRW](#) have come under pressure on views that their central banks could be asked to strengthen their currencies against the dollar, e.g. [Mar-a-Lago](#). Expect Bessent to step carefully on this subject, but we think this testimony presents a downside risk to the dollar.

We also have the FOMC meeting and Chair Powell's press conference this evening. We [doubt this will prove a major market mover](#) as the Fed continues to resist presidential pressure to cut rates. It seems the market is comfortable enough waiting for the next Fed rate cut in July, while also waiting on the hard data to determine how deeply the Fed cuts. Markets have recently pared back about 20bp of the Fed's next easing cycle – again asking why the dollar isn't doing any better?

DXY stalled last week exactly where it should have if we are seeing a weak bear market correction. We imagine there are a lot of protective buy stops above 101.00 now. But for the time being, DXY price action has been poor and a drift back to 99.25 in quiet markets will confirm that the dollar is struggling to shake the risk premium associated with uncertain US policymaking.

Chris Turner

📈 EUR: Weakened Merz doesn't do too much damage

It's been quite an attractive story to tell that if German fiscal expansion caused the EUR/USD exchange rate to rise significantly in March (from 1.04 to 1.09), then a [weakened Friedrich Merz](#) should see EUR/USD fall a few figures back. His failure in the first confirmation round in German parliament yesterday did briefly send EUR/USD back to 1.1310, but EUR/USD is proving quite resilient. There's also an argument that [China's monetary stimulus announced overnight](#) is a EUR/USD positive as it helps global demand trends.

Away from the US inputs today, the eurozone focus will be on weak retail sales data for March. And this morning we've already seen some slightly softer Swedish inflation data, although probably not enough to knock the consensus view that the Riksbank will leave the [policy rate unchanged](#) at 2.25% when it meets tomorrow.

As for EUR/USD, it held important support at 1.1260 last week. The market remains nervous over US policy, and dollar price action is quite poor. We have a slight bias that it can push through 1.1380 to 1.1420 in quiet markets.

Chris Turner

📈 GBP: Trade deals can help

Sterling is trading steadily, but politics should be supportive this month. We've already seen a new UK-Indian trade deal announced yesterday, but speculation is rising that a US-UK trade deal could be reached this week. It's unclear whether London will be able to negotiate away the 10% baseline US tariffs, but it might be able to secure reductions in the 25% tariff rate on the car and steel sectors. Additionally, we're still focusing on the 19 May UK-EU summit – the first since Brexit. Warming relations with the EU typically sees sterling rally.

We've also got the small matter of the Bank of England rate-setting meeting tomorrow. Our [UK](#)

economist, James Smith, thinks the market has got ahead of itself in pricing too many rate cuts this year.

We therefore have a bias that GBP/USD trades back to the 1.3445 high over the next couple of days.

Chris Turner

➔ CEE: NBP and CNB to cut rates but the tone is different

Today, the region will be busy on the monetary policy side. First, we will see the decision of the Czech National Bank. After yesterday's lower-than-expected inflation, the rate cut is basically a deal done by 25bp to 3.50%, in line with market expectations. The bigger focus will be on the press conference and the new central bank forecast. Even after the lower inflation numbers, dragged down mainly by food and energy prices, we expect forward guidance to be hawkish, while the new forecast should be more mixed.

In Poland, we will also see the decision of the National Bank of Poland. We expect a 50bp rate cut to 5.25%, in line with expectations, and the opening of the rate-cutting cycle after a year and a half pause. However, NBP communication has not been clear in recent weeks and more options on both sides are on the table compared to our forecast. There is also the release of the statement today which could give us a clue on the next direction and forward guidance. The governor's press conference is tomorrow, which should be the main event.

In Romania, we continue to monitor the post-election market reaction. Yesterday EUR/RON jumped above the key 5.00 level and almost touched 5.10 after years of stability. Our economists maintain an end-year target of 5.05, but in the short term we are likely to move in the 5.05-5.10 range depending on market pressure on the RON. But 5.10 seems to be the hard line for now and FX will have more flexibility in the political environment.

CEE currencies were hit by global risk-off sentiment yesterday but later showed resilience again and not much has changed. As we approach today, we maintain the same perspective we've held over the past few weeks: the PLN/CZK exchange rate is declining, reflecting the divergent monetary policies of Poland and the Czech Republic. Although 50bp is priced in in Poland, we believe the start of the cutting cycle will have a dovish tone, pushing EUR/PLN closer to 4.300. On the other hand, the CNB will remain hawkish despite lower inflation, which should support EUR/CZK below 24.900.

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