

FX Daily: Dollar can hold gains on limited Powell pushback

The highlight of today's FX session will be Fed Chair Powell's first leg of his monetary policy testimony to Congress. He speaks in the Senate at 16CET today. While welcoming the start of a broad disinflation process in early February, we doubt Powell will push back much against expectations of another 75bp+ of Fed hikes. This should see the \$ hold gains



Federal Reserve Chair
Jerome Powell

USD: Little incentive for Powell to push back

Monday's overnight FX session was another quiet one. The highlight was a dovish 25bp hike from the Reserve Bank of Australia (RBA). It still promised more monetary tightening ahead, but the language softened on the immediacy and magnitude of further rate increases and prompted yields at the short end of the Australian curve to drop 13bp and AUD/USD to drop 0.5/0.7%. Elsewhere, what was seen as encouraging Chinese net trade figures failed to budge USD/CNH from the 6.94 area.

On to today and the highlight will be Fed Chair Jerome Powell's testimony on monetary policy. This comes at a time when the market has priced in 25bp hikes at the March, May, and June meetings

plus is half thinking about another 25bp hike in the third quarter. The big, hawkish adjustment in Fed tightening expectations was driven by the data last month, not Fed speak. Having said that, however, there were a few FOMC non-voters pushing the view that the Fed should have hiked 50bp on 1 February rather than 25bp.

Interesting for markets today will be whether Powell does say the Fed would be open to 50bp hikes in the future – presumably, he cannot rule that out. He may also now be drawn out on what the Fed considers the terminal rate (5.40/5.50% is priced at the moment). He may try to elaborate on remarks made on 1 February that the broad disinflation process has started, but with inflation proving sticky (not just in the US, but around the world), consumption and employment trends staying firm and risk assets supported, it would seem unlikely he chooses to push the 'all-clear' inflation narrative today. His remarks can probably see the dollar gently bid.

A better chance of the dollar and US yields reversing February strength probably comes with Friday's US February jobs release, where ING's US economist, James Knightley, looks for [a softer number](#).

It does not look like we have any hawkish ECB members due to speak today (hawkish ECB comments having helped European currencies and weakened the dollar yesterday), which suggests DXY might nudge back to the top of a short-term 104.00-105.00 range. In the medium term, we retain the view that the dollar will break lower later this year – please see our [latest FX talking update](#).

Chris Turner

➔ EUR: European hawks in focus

Helping EUR/USD yesterday were comments from ECB ultra hawk, Robert Holzmann, that the ECB should deliver four more 50bp rate hikes. That would take the deposit rate to 4.50% versus the already aggressive 4.00% currently priced. ECB Chief Economist Philip Lane tried to calm things down by suggesting the ECB should not go onto autopilot after what should be a 50bp hike this month. But the market is more sensitive to the hawks given the sticky inflation data.

We do not see any ECB speakers scheduled today. Data today will be the ECB consumer expectations survey released at 10CET, though January retail sales data released yesterday [mildly disappointed](#). As above, Powell's testimony should dominate today and might nudge EUR/USD back to the lower end of the 1.0600-1.0700 range.

Elsewhere today we have a rare speech on monetary policy from Swiss National Bank (SNB) president Thomas Jordan. [He speaks at 19CET today](#). He will probably have had to tweak his speech after yesterday's release of Swiss February CPI data, which rose 0.7% month-on-month, matching the highs from last summer. The SNB takes its inflation-targeting mandate very literally and this inflation data should prompt some sharply hawkish rhetoric. We and the market look for a 50bp SNB hike on 23 March. And the market looks for a further 50-75bp of tightening after that. Anyone in need of securing CHF balances or CHF funding in the near term should probably do so before tonight's speech.

Chris Turner

➔ GBP: Strong second-tier data fail to lift sterling

Following on from stronger service sector confidence data, yesterday saw a very positive PMI release for the UK construction sector. And this morning's BRC Like-For-Like Retail sales data has also come in at a strong 4.9% year-on-year for February. This strong second-tier data have not had much impact on sterling, however, where hawkish ECB remarks have dominated and EUR/GBP has pushed back to the top of its 0.88-0.89 range. We suspect that will be the direction of travel this year – helped later in the year when the Bank of England shifts into a formal pause with its tightening cycle.

Cable is trading well inside last week's 1.1925-1.2145 range and we would have a slight downside bias given Powell's testimony today.

Chris Turner

⬇️ ILS: Shekel searches for stability

As we discuss in this month's [FX Talking publication](#), the normally stable shekel has been hit hard over the last month. USD/ILS has risen 10% – seemingly on the Israeli government's desire to push through very contentious judicial reform. Opponents of this proposed policy in Israel's lucrative tech sector have even suggested that IPO proceeds would not be brought back to Israel unless this policy proposal was altered. The Israeli foreign minister criticising the Bank of Israel's (BoI's) recent 50bp hike has not helped the shekel either. Yesterday, however, the shekel got a lift from the Israeli president suggesting that an agreement on judicial reform was 'closer than ever'. Details to back those comments were scant.

At the same time, we noted that the February release of BoI FX reserve data suggests there had been no FX intervention to support the shekel last month. That may come as a disappointment to some looking for the very interventionist BoI to step into the market. Perhaps the criticism over the rate hike made FX intervention too political? We do like the shekel multi-quarter and it had been one of our top picks for the year assuming the dollar bear trend does re-assert itself in the second half. But investors will very probably want to see some concrete political agreement on these judicial reforms before rebuilding long positions in the shekel.

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