

## FX Daily: Dollar can survive a negative GDP print

Consensus has shifted to -0.1% QoQ annualised for today's 1Q US GDP print following a wider than expected trade deficit for March. Details of the report, especially on consumer spending, will be crucial for the market reaction. We still think equities' stabilisation on Trump's softer tariff tone can offset the unsupportive data flow for the dollar



All eyes will be on the US first-quarter GDP print today, and our team agrees that a negative read is fairly likely

### ➔ USD: Equities providing shield against bad data

The dollar continues to be pulled by opposing forces: US President Donald Trump's scaling back of some protectionism measures versus data evidence of a US slowdown. Ultimately, the tiebreak for FX impact seems to be equities performance. US stocks had a good day yesterday as some tariff exemptions for auto parts outweighed poor data, and the dollar was moderately stronger across the board. We also believe some month-end rebalancing contributed to supporting the dollar.

Today, all eyes will be on the US first-quarter GDP print. Economists have revised their forecasts lower following yesterday's much wider-than-expected goods trade deficit figures for March, and consensus now sits at -0.1% quarter-on-quarter annualised. Our economics team agrees that a negative read is quite likely. Markets will, anyway, look at how much of the slowdown is attributable to rising imports due to pre-tariff hoarding relative to an effective slowdown in

consumption. We suspect personal spending figures may not look that grim, and that the dollar can show some resilience to a negative GDP print today.

The other two key releases today are the ADP employment figures for April and March's core PCE (the Federal Reserve's preferred measure of inflation). The latter is expected to slow down to 0.1% month-on-month, which may lead to some Fed members feeling more comfortable when discussing easing prospects, and can potentially fuel some momentum to fully price in a cut in June (now 17bp factored in).

We have a neutral bias on the dollar today. While the data flow should continue to prove a net-negative, markets are clearly welcoming Trump's efforts to ease some tariff pain. We still believe that a constant flow of constructive news on trade (especially regarding China) is needed to keep equities and the dollar supported, but for now, it might be enough to let the dollar stabilise into Friday's payrolls.

*Francesco Pesole*

## ➔ EUR: Euro less reactive to domestic data

It's also GDP day across the eurozone today. France has already released its first-quarter preliminary figure of 0.1% QoQ, in line with market expectations. Germany is up next this morning, with consensus centred for a modest 0.2% QoQ rebound. The eurozone numbers are released at 11:00am CET, and are expected to show 0.2% QoQ first-quarter growth, the same as in the fourth quarter of last year.

Barring major deviations from consensus, we doubt these pre-tariff GDP figures will have much impact on the euro. The same can probably be said about April's preliminary CPI prints for Germany and France, also due this morning. Markets are fully buying into the European Central Bank's dovish narrative, and we think that it will take a much softer-than-expected CPI read to trigger even more dovish repricing. The bar is equally high for a material euro impact in case of hotter than expected inflation, given the ECB's seemingly relaxed stance on price shocks and the euro's strengthening offering some shield.

We think EUR/USD could start to find some anchoring around the 1.140 level. We have seen some strong buying in the dips of late around 1.130, and markets may be lacking the conviction to push it back above 1.150 with US equities finding some stabilisation.

*Francesco Pesole*

## ⬇️ PLN: Last inflation print before the cutting cycle resumes

Today's headline number in Central and Eastern Europe will be Poland's April inflation, which is always the first inflation number to be released for the region. This time, it'll receive special market attention due to next week's National Bank of Poland meeting. According to statements made by several central bank council members, the level of inflation in April is set to determine the size of the central bank's next rate cut. We have heard several times that a number below 4.5% should be sufficient for a 50bp rate cut, which is also our baseline scenario for next week's meeting. We estimate that April inflation slowed from 4.9% to 4.3% year-on-year, in line with market estimates. Core inflation most likely also moderated further.

However, the market has already shifted to the dovish side following the March NBP meeting, and

is pricing in a 50bp rate cut next week and a terminal rate of around 3.25% from the current 5.75%. Market pricing is therefore on the significantly dovish side versus our forecast of 3.75% for the end of next year. Still, if the NBP starts the cutting cycle with 50bp next week – and we may see confirmation of this today – it wouldn't be surprising to see the market push for further rate cuts, or at the very least refuse to give hawkish repricing a chance. Overall, this should keep EUR/PLN more in the 4.280-300 range, and we see the current lower levels as temporary.

*Frantisek Taborsky*

## CEE: Remaining hawkish despite market expectations

The flash GDP figures for the first quarter of this year for the Czech Republic and Hungary will be published today. In the Czech Republic, we should see signs of a further economic recovery, with the strong monthly data set to beat the Czech National Bank's GDP forecast of 1.5%. We expect an acceleration from 1.8% to 2.0% YoY, in line with market expectations, but with the data pointing to some upside risk. This should only add to the hawkish picture painted by CNB board members in recent days.

It remains unclear whether this will lead to a pause in the cutting cycle next week, but the CNB's deputy governor mentioned yesterday that monetary policy needs to be tighter than expected before the trade war escalates. We therefore continue to see downside for EUR/CZK, which should be supported by yesterday's move in CZK rates following the central bank's hawkish stance. We therefore expect a test of 24.900 in the coming days.

In Hungary, first-quarter GDP should be similar to last year's weak final quarter with growth of 0.4% YoY. Worse than previously expected GDP numbers have already been telegraphed by the government in the previous days. Despite the dovish narrative, [yesterday's National Bank of Hungary meeting](#) confirmed our view that it is too early for the central bank to make changes. For now, our baseline view remains unchanged, and we do not expect any rate cuts this year – although there is dovish risk in the inflation numbers. While the market has priced out some dovish expectations, FX has not benefited much from this. We believe EUR/HUF in particular remains a global play, and the local story isn't affecting FX too much at the moment. Improving global sentiment may support HUF in the short term, but in the medium term, we expect EUR/HUF to return above 410.

*Frantisek Taborsky*

## Author

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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