

## FX Daily: Dollar close to another confidence crisis

The 'sell America' scenario is becoming tangible again, as Treasuries and US equities are under pressure. That can be a very toxic combination for the dollar. Markets are clearly punishing US assets again after 104% China tariffs kicked in. Barring any de-escalation, the dollar has further to fall. Meanwhile, China is allowing the yuan to fall gradually



Watch for a potential 'sell America' narrative gaining traction

### ⬇️ USD: Sell America?

Just when the dollar seemed to be regaining some confidence, the US decision to go ahead with a tariff hike of 104% on China (alongside all other tariffs) led to a rotation away from the greenback. With risk sentiment deteriorating throughout the US session, the other safe havens CHF and JPY remain in a strong position despite another rise in global sovereign yields. Interestingly, dollar deleveraging favoured European currencies yesterday, perhaps on the view that the measured EU response to US tariffs makes a trade deal more likely.

One of the reasons why the dollar is suffering the most from additional tariffs on China is that markets feel the lack of immediate substitutes for some Chinese products means even greater

inflationary/recessionary risks for the US. At the same time, there is a diminishing negative effect on Chinese exporters from additional tariffs.

While it's true that Trump is starting to negotiate with other key partners (like Korea yesterday), the technical times for trade deals aren't short, especially considering the large number of parts involved at the same time. We'll watch closely whether European equities outperform US ones again today. Should that happen in unison with a further widening in the 10-year Atlantic spread (which has moved from 154 to 175bp in the past 24 hours), it would signal the additional loss of confidence in USD-denominated assets that can add pressure on the greenback as markets lose confidence in its safe haven value. We think the balance of risks is tilted to the downside today in DXY, which can break below 102.0

The data calendar is relatively light in the US today, after yesterday's NFIB surveys pointed to softer small business sentiment and hiring plans. MBA mortgage applications will be monitored closely after having dropped for three consecutive weeks. Later today, the Fed releases its March meeting minutes. Most of the focus will likely be on the assessment of the tariff impact on inflation, although the "liberation day" delivered harsher than expected protectionism, so the March minutes are probably already outdated by now. Fedspeak is more relevant at this stage. Yesterday, Mary Daly, President of the San Francisco Federal Reserve, warned not to expect any tariff-induced rate cuts, while Chicago Fed President Austan Goolsbee suggested the Fed may need to act before the growth effect is shown on hard data. We'll hear from Richmond Fed President Tom Barkin today.

Elsewhere, the Reserve Bank of New Zealand (RBNZ) cut rates by 25bp to 3.5% this morning, matching expectations. Guidance remained dovish, with policymakers signalling more room to cut rates as trade war effects unfold. We now think the RBNZ will take rates below 3.0%, probably to a 2.75% terminal rate, which is still above market pricing for 2.5%.

The FX implications are very much secondary compared to the direction of trade news. AUD and NZD remain key laggards in G10 due to their proxy role for China. The People's Bank of China's (PBoC's) greater appetite for a lower yuan (more on the CNY section below) could take some pressure off the proxies, but it is not enough to trigger any strong rebound. AUD/USD has broken below the key 0.60 mark and NZD may follow by breaching the 0.55 support in the coming sessions. Given how far Antipodeans have fallen, they will be the biggest beneficiaries from any sign of de-escalation between China and the US.

*Francesco Pesole*

## EUR: Benefitting from USD losses

EUR/USD has rallied back above 1.10, banking on idiosyncratic USD weakness. As discussed above, the Atlantic spreads can have inverse correlations with FX if there are signs that markets are losing confidence in a broader spectrum of USD-denominated assets.

The euro remains in a good position to benefit from any USD confidence crisis, being the second most liquid currency in the world and a preferred alternative to the dollar for FX reserves. Incidentally, domestic soft growth is the normality for the euro but an abnormality for the dollar, and the greenback stands to face asymmetrical downside impact from recession risk.

So far, the vicinity to an increasingly likely ECB cut is not harming the euro. If indeed the focus

remains on the “sell America” narrative into next week’s ECB meeting, a signal that the ECB is ready to ease policy while the Fed is stuck with inflationary fears might even have an abnormal positive effect on EUR/USD.

Tariff headlines will dominate again today, and expect FX volatility to remain elevated across G10 and EM. EUR/USD may find some extra support for now should it clear the 1.100 level.

*Francesco Pesole*

## 📉 CNY: Depreciation remains a key policy response

In China, the PBoC set the USD/CNY fixing at 7.2066 this morning. This marks the fifth consecutive adjustment higher, reinforcing the view that a controlled weakening of the yuan (albeit not a devaluation) is part of China’s policy response to tariffs.

USD/CNH spiked above 7.400 yesterday, with the CNH-CNY gap exceeding 1%. Chinese state banks reportedly stepped in by selling dollars against CNY, which prompted a rebound in the offshore yuan. CNH is now trading at 7.38 per \$, 0.5% weaker than the onshore CNY.

Despite the interventions by state banks overnight, it appears that the PBoC is still not overly concerned about the USD/CNH rally. Officials have the possibility of draining liquidity from CNH should they feel particularly uneasy about CNH volatility: that would show through a spike in short-term CNH-implied yield. The one-week yield is currently at 2%, well below the 5% peaks seen in recent instances. That again confirms that Beijing is loosening its grip on the yuan to absorb part of the tariff shock. A return above 7.40 in USD/CNH would be entirely in line with that approach.

*Francesco Pesole*

## ➡ CEE: First estimates of the impact of US tariffs point mainly to a weaker economy

Regional officials are coming up with estimates of the impact of US tariffs on the economy and the focus seems to be mainly on the GDP impact rather than inflation. For now, we haven’t heard many comments from central banks on what’s next for monetary policy. However, yesterday, the National Bank of Hungary issued a non-monetary policy meeting press release after [a lower-than-expected inflation](#), saying the estimate of the negative impact of US tariffs on GDP growth this year ranges from 0.5-0.6pp. That pushes us somehow below 2% this year. At the same time, the statement shows that for the central bank, this, combined with still higher inflation, means no change in rates for now.

We have seen similar estimates in previous days from the Polish and Czech finance ministries (0.4pp and 0.6-0.7pp cut to GDP growth). While the National Bank of Poland (NBP) is focused on the local story, which we think will lead it to a 50bp rate cut in May and 100bp combined this year with more at risk, the Czech National Bank (CNB) is more complicated. Before the US tariff announcement, it appeared that the May rate cut may be the last. Although trade wars were on the CNB’s inflation risk list in March, the focus now may shift more to the negative impact on GDP. However, the CNB still does not pay much attention to the economy and is usually laser-focused on inflation. Thus, in our view, we will need to see further escalation of trade wars for this to change the CNB view. Still, the willingness to cut rates below 3.50% should be higher than at the start of last week.

With global sentiment improving yesterday, CEE FX saw some gains, with PLN leading the trend. Of course, PLN weakened the most in the last week, in part due to the dovish NBP turnaround. This is also the reason why we believe EUR/PLN won't go far from current levels. This is because dovish market pricing is not only the result of a global story, as in the case of the Czech Republic and Hungary, but also a local one. Therefore, the global sentiment reversal should not lead to a reversal of the losses from the previous days. So we see EUR/PLN more around 4.280 in line with the rate differential while EUR/CZK should continue down below 25.100. EUR/HUF reversed its way to 410 thanks to the turnaround in European equities, but even after yesterday's rally we don't see much reason to go below 406.

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