

## FX Daily: Dollar decline gains some momentum

Thursday's FX session saw the dollar decline pick up a little steam and break some key levels. It is hard to fight the trend even if today's session does pose a threat to the risk environment in the form of US bank earnings. Sovereign rating reviews in Romania and the Czech Republic should not bring any changes, but we see risks in both directions



Soft US March retail sales should be a dollar negative

### ➔ USD: Retail sales and first quarter bank earnings in focus

The DXY dollar index yesterday dropped close to the lows seen in early February. The catalyst for the move was a slight pick-up in initial claims (easing supply constraints in the labour market) and softer PPI (welcome disinflation). Again, we get the sense that the FX market was moving more than rate markets – suggesting that investors are sinking their teeth into the forthcoming dollar bear trend.

The dollar decline will not be a one-way street, however, and could be buffeted today by a number of factors. Soft US March retail sales (ex-autos expected at -0.4% month-on-month) should be a dollar negative.

What could confuse matters, however, is the release of first-quarter results from major US banks such as JP Morgan, Citi and Wells Fargo. The focus here is going to be on their deposit base in light of last month's developments. A big exodus in deposits to government-backed Money Market Funds might be seen as a negative. Equally, a big increase in deposits could also be seen as a negative if it is read as a weakening of the deposit bases of the troubled US regional banks.

The risk here is of another leg lower in equities, which might undermine some of the rallies seen in commodity and emerging market currencies this week. In the bigger picture, however, investors look in the mood to sell dollars (USD/JPY would be our preference) and DXY may well struggle to make it back above 102.

*Chris Turner*

## ➔ EUR: Advance has so far been orderly

So far the EUR/USD advance has been reasonably orderly at around 70 pips per day this week. Speaking to our FX options trading team, the sense seems to be that FX options barriers have yet to be triggered – the barrier being a key level above which the spot move would accelerate. This could be one of the reasons why EUR/USD could move up to the 1.1180/1250 area over the next week.

As above, however, the path higher may not be a straight one and we want to see how financial markets trade around US earnings releases this lunchtime. Supporting the euro, however, has been slightly [better-than-expected industrial activity](#) – with a solid eurozone industrial production figure in February softening fears for the German industrial sector. The eurozone calendar is very light today and a speech from European Central Bank arch-hawk Joachim Nagel is only delivered after Europe closes.

1.0980/1.1000 could hold intra-day EUR/USD dips.

*Chris Turner*

## ➔ GBP: A 'positive demand shock' to help sterling

In a speech in Washington yesterday, Bank of England Chief Economist, Huw Pill, said that the UK could be experiencing a 'positive demand shock' from low unemployment supporting consumption. That suggests Pill may not be shifting into 'pause' mode when it comes to monetary policy. Here financial markets now price an 80% chance of a 25bp BoE hike on 11 May.

Expect a lot more focus on the BoE story next week with the release of jobs and inflation data. For the time being, GBP/USD can continue to grind higher on the soft dollar story (support now 1.2480), while EUR/GBP should stay bid near 0.8800.

*Chris Turner*

## ⬆ CEE: Rating reviews in Romania and Czech Republic

Today's calendar offers only the final inflation numbers in Poland for March and we expect confirmation at 16.2% year-on-year. This should close out the round of March inflation numbers from the CEE region. And as we mentioned yesterday, the distinct inflation profiles in the region are starting to emerge. Just to recap, inflation fell to 14.5% in [Romania](#) and 15.0% in [the Czech](#)

[Republic](#), while Poland fell to 16.2% with much stickier core inflation, and [Hungary](#) to 25.2% YoY. And our economists expect a similar pattern going forward, with the Czech Republic and Romania expected to be the best countries to play the disinflation story in the coming months.

It will be more interesting today after the end of trading. We have two sovereign rating reviews on the agenda, both from S&P. In Romania, S&P has a BBB- rating with a stable outlook. We do not expect any changes, but at the same time we see a 25% risk of an upgrade in the outlook to positive. In the Czech Republic, S&P has an AA- rating with a stable outlook and we do not expect any changes here either. However, Fitch and Moody's has already downgraded the outlook to negative in the past year and the risk is thus down.

In the FX market, the CEE region delivered new gains yesterday as expected, supported by the global story. On a local level, the Czech koruna was the biggest gainer, supported by hawkish comments from the Czech National Bank. The koruna closed below 23.30 EUR/CZK for the first time since the summer of 2008, and given the higher EUR/USD levels and positive sentiment, some further gains can be expected today. As we mentioned earlier, we think the next move from 23.30 to 23.00 will be more complicated due to heavy long positioning and potential profit taking. However, for now, conditions remain positive for the entire region, which could see further gains today.

*Frantisek Taborsky*

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