FX Daily: Dollar holds its own as economic fallout builds

Far from calming down over the weekend, events in the Middle East only point to a broadening economic shock as oil spikes through $100/barrel. Israel and the US are broadening their targets within Iran, while Iran continues to target economic sites in Gulf states. We doubt an emergency release of oil stocks by the IEA will calm tension for long. USD to stay bid

We're expecting the dollar to stay bid

USD: IEA oil release unlikely to help for long

A big spike in energy prices in early Asia reflects the on-the-ground reality that the threat to the world's oil supply is only increasing. Warren Patterson discusses the latest developments here. Every day the conflict continues, more crude is shut-in and the higher energy prices will go. So far, US President Donald Trump is pitching that oil above $100/bl is a small price to pay for regime change in the Middle East. In early Europe, oil has come off its highs on a Financial Times report that the G7 will be meeting later today to discuss the co-ordinated release of energy reserves. This would be implemented through the International Energy Administration (IEA), a grouping of 32 countries.

Back in 2022, the IEA released 62 and then 120 million barrels at the start of March and April, respectively, to address the spike caused by the Russian invasion of Ukraine. The FT is reporting that the US is pushing for a huge 300-400m barrel release, marking a whopping 25-30% of IEA stocks. Such a huge release might bring some temporary calm to energy markets and knock the dollar off its highs. But until there are clear signs of either the US and Israel being able to prevent further economic chaos in the Middle East, or some kind of ceasefire emerging, we cannot see the dollar staying offered for long.

In terms of financial markets, the higher oil prices go, the more the short end of interest rate curves are re-priced higher and the greater pressure builds at the long end of the bond market. A much bigger unwind remains the risk for global equity markets as higher energy prices dampen growth prospects, while higher longer-dated interest rates sap the net present value earnings of the growth stocks. Short dollar positioning also means that in extreme bouts of deleveraging – like what we saw last Tuesday and could perhaps see again today – the dollar is again the beneficiary.

The US economic calendar will be of secondary consequence this week, even though January's US jobs report did come in soft. The data focus this week will probably be on US inflation, where we have the February CPI data on Wednesday and the core PCE deflator on Friday. The latter could come in on the hot side, with the core PCE deflator rising to 3.1% year-on-year, as companies push through annual price changes in January. This can add to the view that the Federal Reserve will delay rate cuts.

DXY has retested the 99.65/70 highs in Asia and, barring some clear signs of de-escalation, looks likely to challenge the range of highs near 100.25/35 this week.

Chris Turner

EUR: 1.15 remains vulnerable for EUR/USD

Big support just below 1.1500 in EUR/USD remains vulnerable. The longer energy prices stay high, the greater the damage to the 2026 narrative of synchronised global growth and Europe playing catch-up with US exceptionalism. Even though US-eurozone rate differentials are narrowing in favour of the euro, the energy-driven terms of trade shock is having a much bigger effect on EUR/USD. We could see a brief bounce in EUR/USD today should the IEA get anywhere near that 300-400m barrel release (though that seems very optimistic), but it looks like position adjustment will mean that EUR/USD struggles to make it much above the 1.1600 area now.

Below 1.1475/1500, expect trade volatility to surge as EUR/USD could make a run at 1.1400 in fast markets.

Chris Turner

JPY: Looking for the BoJ to supply dollars

USD/JPY has now firmly moved back into the FX intervention zone. The debate is whether this global shock makes it less likely that the Japanese will intervene. Or, with talk of a co-ordinated oil release, does that make co-ordinated US-Japan FX intervention more likely? The latter is probably still too much of a stretch. Were it seen, however, USD/JPY could probably fall three to five big figures and short-dated volatility would spike. Yet, unless we see some signals of an imminent return of oil supply, we will not be in an environment where FX intervention is effective nor the

USD/JPY correction lower sustainable.

But 160 in USD/JPY and 1500 in USD/KRW are big psychological levels for local authorities. And these are the financial market's best bet of a big supply of dollars anytime soon.

Chris Turner

CEE: The region remains one of the most exposed to the US-Iran conflict

The global story completely dominated the region last week and headlines suggest it will be the same this week as well. Still, the calendar offers some interesting numbers for the local story if we see any early easing of the geopolitical situation.

On Tuesday, Hungary will release its February inflation, which is expected to fall to this year's lows of 1.5% YoY, below both market and National Bank of Hungary expectations. Of course, this is old news after the start of the US-Iran conflict, but it will be a starting point for further developments and inflationary pressures coming from higher energy prices.

On Thursday, the Central bank of Turkey will meet, where the current geopolitical developments and higher-than-expected inflation indicate a halt to the cutting cycle at 37%. On Friday, Poland will release its February inflation, where we expect stagnation at 2.2% YoY.

However, we will have to put the calendar aside for coming days again. The CEE region remains one of the most exposed markets to the US-Iran conflict globally and after Friday's significant sell-off in rates, no calm can be expected today due to the continued rise in oil prices on the market. Friday indicated that in addition to rates, FX is also coming back under pressure in the region and attention is returning to EUR/HUF, which the market sees as the most exposed to energy prices and the impact on inflation. At the same time, long HUF was the largest positioning within CEE3 and is understandably the most under pressure, which will be an indicator of stress in the region today as well.

Frantisek Taborsky

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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