FX Daily: Dollar rebound can continue

There is no clear catalyst for dollar strength towards the end of this week, but the pause in rotation from US to European equities and some caution ahead of the 2 April tariff event are probably playing a role. Data may get in the way of the dollar's recovery from next week but for now, there is a good case to chase the rebound

We think dollar shorts are being trimmed ahead of April tariff news

USD: Data-light days can be good for the dollar

The dollar had another good session yesterday and stayed bid overnight. There was no clear catalyst in data or market events, and the USD rebound seems to be more related to the unwinding of short positions ahead of US tariffs being implemented on 2 April. Coincidentally, European equities have lagged US stocks this week – a rare occurrence lately. Likely contributing to that is the more tepid optimism on an imminent Russia-Ukraine truce after high-level talks this week only yielded a halt to energy infrastructure strikes.

Our preference is to chase the dollar rebound at this stage, but we admit that data can easily get in the way. Yesterday, the US Conference Board Leading Index came in just below consensus at -0.3% month-on-month, a soft print but not as alarming as other indicators. At the same time, there is still very little evidence from jobless claims of stress in the labour market.

The US data calendar is empty today. A day without key data may offer better opportunities for the greenback to keep recovering ground. The Federal Reserve's blackout period is also officially over, and the cautious tone struck by the FOMC and Chair Jerome Powell this week likely leaves decent room for post-meeting tweaks in communication. Those should mostly come after new data has been released, but we'll still keep a close eye on the dovish-leaning Austan Goolsbee's interview with CNBC today.

The stronger dollar momentum is showing in USD/JPY this morning, with the pair trading higher despite a stronger-than-expected February CPI print overnight. Core inflation came in at 3.0% year-on-year versus expectations of 2.9%. The print is still marking a small slowdown from January (3.2%) and markets may therefore lack the incentive to bring the next hike forward to May. Our economist's base case is instead that May will see the next move in rates. We suspect that USD/JPY is facing a similar unwinding of USD shorts to the rest of the G10 pairs. Given the yen's safe-haven appeal ahead of US tariff announcements and our hawkish view on the Bank of Japan, we are not convinced a USD rebound will be played primarily via a materially higher USD/JPY.

Francesco Pesole

EUR: Don't expect ECB guidance

European Central Bank President Christine Lagarde stuck to a strictly neutral tone in her EU Parliament speech yesterday. It's admittedly hard to ask for anything different than rigorous data dependency at a time where uncertainty on the tariff impact is paired with uncertainty about fiscal stimulus implications. In other words, don't expect any ECB guidance before data has already set the direction for the euro.

For the time being, the unwinding of the EUR/USD rally is matching our call, even if perhaps slightly earlier than we would have thought. Again, noise risk is elevated, but our preference in terms of multi-week directions is still down for the pair. A 2-year swap rate differential around the current -150bp would still be consistent with EUR/USD at 1.07.

We also have a light calendar today in the eurozone and no ECB speakers. The next major support for EUR/USD is probably the 1.0725 200-day moving average, which is now the key benchmark for a return to a bullish mood on the greenback.

Elsewhere in Europe, we saw the Riksbank keeping rates on hold and the Swiss National Bank cutting another 25bp. On the former, markets had already anticipated that rates had reached the bottom, and the krona was only marginally moved. EUR/SEK remains cheap according to our short-term fair value model and we continue to favour a rebound to the 11.10-11.20 mark over the coming weeks.

In Switzerland, another SNB cut brought the policy rate to 0.25%. The accompanying statement left all options open, but our economist notes how, for the first time in a long time, the SNB hasn't had to revise its inflation projections lower. We expect a hold in June and lean towards calling for the end of the easing cycle altogether. As we had anticipated, the Swiss franc dropped on the announcement, but EUR/CHF does not seem to have much bullish steam. Any further rallies should anyway fall short of breaking above 0.970 and our bias for the second quarter remains a return to 0.950.

Francesco Pesole

GBP: No major impact from BoE hold

The sterling curve saw a minor 5bp hawkish repricing after the Bank of England's consensus hold yesterday. There were two noteworthy aspects of the meeting: firstly, Catherine Mann has rapidly abandoned the dovish camp, leaving only one member voting against a hold, and secondly, we saw some reference to the fact that should data show greater job market instability, the BoE can draw disinflation-related conclusions and cut rates faster.

Our call is unchanged – three cuts this year – but data uncertainty remains elevated. The UK is about to face the combined impact of the announced hike in corporate taxes, US tariffs, and a likely spending squeeze to be announced next week. The balance of risks looks tilted to the downside for growth – and intuitively for front-end GBP rates – but inflation has remained too sticky so far, and the Sonia pricing has remained understandably cautious (two cuts by year-end).

We still look with some concern at next week's budget events from a sterling perspective. Implications for growth and the bond market argue against short-term bullishness on the pound. We still prefer playing any GBP weakness through Cable rather than EUR/GBP.

Francesco Pesole

CEE: Last data release before next week's CNB meeting

Friday should be rather quiet in the CEE region after a busy week in the markets. In the Czech Republic, consumer confidence for March will be released as the last data point before Wednesday's Czech National Bank meeting. As we have discussed several times this week ahead of the blackout period, everything points towards another pause in the cutting cycle, and the question is more about the conditions needed for the May rate cut we have in the forecast. The CNB's cautious approach alongside global events should be supportive for FX, and we believe that next week EUR/CZK may retest levels below 25.00 and potentially go below this year's lows of 24.90.

In Turkey, we saw FX and bond market stabilisation yesterday after Wednesday's sell-off. The Central Bank of Turkey supported the situation with a surprise increase in the O/N lending rate from 44% to 46%, while other rates remained unchanged. From yesterday's trading, it seems that the central bank will try to keep USD/TRY below 38.000 for the following days in an attempt to restore confidence in the market and offset previous TRY losses.

We believe that the central bank will try its best to maintain market stability over the coming period. However, we believe the main focus will be on the behaviour of local participants rather than foreign investors, and the degree of local currency conversions to FX will drive the CBT's next steps. At least in the short term, TRY seems attractive to us again, but it's certain that the market will be hesitant to take more risk.

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