

## FX Daily: Dollar rebound might have legs

Despite a cooler-than-expected US core CPI print yesterday, the dollar is recovering some ground. The focus now shifts to PPI figures today as well as the discussion within the Senate to approve a government funding bill. Elsewhere, officiality on a Russia-Ukraine truce as well as German parliamentary agreement on spending may not lift the euro that much



### ➔ USD: Risk sentiment softer again today

The bond market had a counterintuitive reaction to yesterday's cooler-than-expected core CPI data (0.2% MoM), with the Fed's terminal rate pricing inching higher and Treasuries soft across the curve. This could mirror some reluctance to buy into the deflationary story before the tariff impact has started to show.

The dollar followed UST yields higher but is still losing against most G10 peers since the start of the week. The canonical negative USD-equity market correlation has dwindled in the past weeks as US stocks are trading closely in line with US activity sentiment. Again, the key is whether more equity declines are a US-only matter or followed by European stocks. Futures point to the latter today, so the dollar may not face much idiosyncratic pressure.

The main event in the US calendar today is the release of PPI data for February. Many core PPI components feed into the Fed-preferred core PCE, so markets will be quite attentive. Still, following yesterday's unusual reaction to CPI data, we are not sure a cooler print today would trigger a

dollar correction. Consensus is for a 0.3% MoM core PPI print, but expectations may have shifted to a slightly lower figure after yesterday's CPI.

Anyway, what seems to be weighing on sentiment this morning is the higher risk of a US government shutdown after Senate Democrats said they would block the bill to avert a government shutdown. The proposed alternative is an interim funding plan until 11 April: that would simply postpone a key risk for markets, hence the negative reaction in stock futures. That risk does not emerge very clearly in an FX market that is still readjusting after very wide moves. Moving on, it is probably a USD-negative development given the current tight correlation between the US economic outlook and the dollar.

We don't have a high conviction directional call for the dollar today. A stabilisation might be on the cards for now; in the coming weeks, we still see upside risks for the greenback.

*Francesco Pesole*

## ➔ EUR: Still lots of positives in the price

After inching back below 1.090, the next leg higher for the euro may need to wait for Russia to officially agree on the 30-day truce with Ukraine. Still, that may not be a major or long-lasting bullish driver for the euro, as a peace deal is already largely in the price, and the terms of the truce would need to be weighed against longer-term implications for Ukraine and the EU.

On the macro side, we'll look at industrial production figures for January in the eurozone today, which should not move markets. There is also some interest in tracking ECB members' remarks following last week's cut. Yesterday, ECB President Christine Lagarde said that global trade events will make it "impossible" for the ECB to constantly guarantee 2% inflation. That probably opens the question of whether an overhaul of the ECB's inflation target is due: in practice, this is already being interpreted in a rather flexible way, and only plans of a fiscal boost in Germany have averted rates to be cut to or below 2%, in our view.

Speaking of which, markets remain on the lookout for an official multi-party agreement on defence and infrastructure spending in Germany. A couple of days ago, the Green party said it expected a deal with Chancellor-to-be Friedrich Merz by the end of the week. Once that is announced, we could see a tick higher in the euro, although markets are already almost fully pricing it in.

Our view for the remainder of March remains that a decline to 1.080 is more likely than another rally to 1.10 in EUR/USD.

*Francesco Pesole*

## ➔ GBP: Downside risks ahead of Budget event

Our UK economist has published a [note](#) on the potential reset in UK-EU relationships and implications for British finances. The conclusion is that while rejoining the single market (or tightening economic ties) would have a beneficial growth effect, that is unlikely to unlock much fiscal headroom. That's because the OBR's projection adjustment would likely be spread over multiple years.

We still look with some concern at the upcoming 26 March Budget event in the UK, which runs the

risk of unnerving a gilt market already hit by EU-bond spillover. We see downside risks for sterling ahead of the risk event.

Before then, the UK releases GDP figures for January tomorrow and jobs numbers for February next Thursday, a few hours before the Bank of England rate announcement. That should be a hold (markets pricing in only a 5% chance of a cut), but given expectations for a cut either in May or June, some sort of dovish indication will be required to maintain current pricing in the Sonia curve.

Anyway, we retain a bearish bias on GBP/USD, although near-term noise linked to the US macro outlook might still bring the pair temporarily above 1.300.

*Francesco Pesole:*

## **PLN: Hawkish forecast indicates hawkish NBP press conference**

As expected, the National Bank of Poland left rates unchanged at 5.75%. However, the new forecast is more interesting. This year's outlook has been upgraded from the November version in GDP and downgraded in inflation. But the outlook for next year goes in the opposite direction of higher inflation, and the target will not be reached until 2027. The NBP staff are clearly looking at the situation from the hawkish side. Therefore, we believe today's press conference will be hawkish as well, with an emphasis on higher core inflation, wage pressures, a tight labour market and economic recovery. At the same time, global events may also support the Governor's hawkish tone with the promise of fiscal expansion in Germany as a new development since the last meeting.

As discussed here yesterday, we see a chance for a repricing up in rates, which are on the dovish side compared to the January and February meetings. Although the market is pricing in about 75bp of cuts for this year, similar to our expectations, the market sees the first cut in July, we see a cut in September, and are pricing in another 75bp cut next year. So some hawkish repricing will be supportive for PLN, which has seen some correction in the last two weeks. EUR/PLN could thus head back closer to 4.160 again.

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