FX Daily: Dollar regaining some momentum into tariff event

The dollar started the week on the front foot thanks to some defensive positioning ahead of tomorrow's tariff announcement. Barring data disappointment (JOLTS and ISM manufacturing), there is a case for the dollar to inch a bit higher again today. Hawkish ECB headlines push CEE currencies weaker, but the main driver should still be US tariffs

Trump speaks with White House Press Secretary Karoline Leavitt during the signing of an executive order

USD: Data tests before tariffs

The currency market caught up with the tariff threat at the start of this week, with the dollar stronger across the board, the yen supported, and high-beta currencies under pressure. Again, the big underperformers have been AUD and NZD, likely on the view that China will remain a big focus of US protectionism. In Australia, the Reserve Bank of Australia kept rates on hold overnight as expected. AUD responded to the rally initially, but this morning is not far off yesterday's close.

Despite yesterday's moves, the dollar has plenty of room to rally should tomorrow's tariff announcement surprise on the hawkish (risk-negative) side, but remains at risk of data-led downside pressure.

The US macro calendar will have a big say on today's FX moves, but if we don't see any data surprise we would not fight the dollar's tentative recovery, as the latest comments from the US administration are quelling hopes for a lenient tariff announcement tomorrow. We could see DXY move above 104.50 before tomorrow's big announcement.

JOLTS job openings for February are expected to show a moderate decline to 7.6 million today, with some focus also on the layoff figures. The ISM manufacturing index for March is expected to drop back below 50.0, mirroring the deterioration in sentiment in the sector given tariff uncertainty. For context, our US macro team has recently published a manufacturing outlook.

Francesco Pesole

EUR: CPI can keep markets dovish on ECB

EUR/USD traded briefly below 1.080 yesterday before revering later in the session. The euro remains rather resilient to the whole tariff story anyway: despite the EU being among the biggest victims of this week's round of tariffs, European currencies are faring much better than China proxies or CAD.

What also may have helped the euro is a *Bloomberg* report suggesting that more ECB officials are ready to accept a pause in April. There is a possibility the ECB tipped the media as policymakers were uncomfortable with markets pricing in over 20bp of easing for the April meeting yesterday morning. The ECB probably wants to avoid a situation where it is led by market pricing to take a decision (cut) with the alternative (hold) being delivering a blow to an already turbulent bond market.

Anyway, the implied probability of a cut as of this morning is still high (74%). We'll see what the flash CPI report for March tells us today, but the indications were modestly dovish from Germany yesterday and the consensus is for a decline from 2.6% to 2.5% in core eurozone inflation.

We remain generally cautious about following any EUR/USD rally into the tariff event and instead see mostly downside risks, barring any meaningful US data surprise. We still think a move to 1.070-1.073 can be on the cards in the coming days if the US goes ahead with an aggressive tariff plan.

Francesco Pesole

PLN: Waiting for the dovish signal

March inflation in Poland, released yesterday, surprised to the downside again with an unchanged reading at 4.9% year-on-year, the same level as in January and February. Yet, March inflation is expected to be this year's peak, which, as we can see, came in lower than expected. Core inflation is also showing some signs of easing with a drop to 3.4-3.5% in our calculations. More interestingly, this comes in the week of the National Bank of Poland meeting. It is unlikely that the National Bank of Poland will cut rates this week. But what could be interesting for the markets is if one of the dovish council members proposes a rate cut. Rates have been unchanged for a year and a half. That's why this week's meeting could bring a breakthrough.

Inflation is clearly on a lower path than in the March NBP projection, and the July projection should reflect this. The start of the rate cut cycle is approaching, with the first cut expected in July and potential for a 100bp reduction in Polish rates by the end of 2025.

The market is already pricing in 100bp this year, with the first cut of 50bp in July. So the market is already in our baseline scenario with more cuts early on. Still, the rate cut proposal would have signalled importance to the markets, and we can price in more cuts even if they are not delivered later. Thus, Wednesday's meeting creates downside for the zloty. Yesterday's contradictory direction of PLN rates vs EUR already points to a weaker currency, in part due to hawkish headlines from the European Central Bank. We can thus look above 4.20 EUR/PLN.

Frantisek Taborsky

CEE: Hawkish ECB drives weaker FX

In the Czech Republic, the final GDP figures for the fourth quarter of 2024 will be released today, potentially leading to revisions in the breakdown. Additionally, the region will see the release of PMIs across various sectors, which we believe should boost sentiment. The March state budget results for the Czech Republic will also be released later today.

Yesterday's headlines about a hawkish ECB and the potential for a pause in April sent a negative signal for CEE currencies, leading to a tightening of interest rate differentials after a week of movement in the opposite direction. CEE rates continue to follow the US market, indicating weaker FX in the region despite our expectations yesterday. However, the key event this week will be tomorrow's announcement of reciprocal tariffs by the US administration, which will provide further direction.

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