

## FX Daily: Dollar should be doing better

It is a little surprising to see EUR/USD trading above 1.08 despite a strong US jobs report for March. Could investors be waiting for Wednesday's release of the March US CPI data before taking the dollar on another leg higher? For the week ahead, the US CPI number will dominate. We also have policy rate meetings in the eurozone, Canada and New Zealand



### ⬆️ USD: Fed's speed bump just got bigger

Friday's [strong US jobs report](#) has added to the bumpy path of US disinflation and Federal Reserve rate cuts. At the start of this year, the Fed was comfortably talking about strong disinflationary trends and the slowing labour market. Now it has seen the three-month moving average for US jobs growth rise four months in a row, lending support to those in the 'no landing' camp. Despite Friday's 10bp rise in two-year US swap rates, dollar gains have proved relatively modest. Perhaps investors are recalling Fed Chair Jerome Powell's answer to a question at the 20 March FOMC press conference, where he said that strong US jobs data would not delay rate cuts. More likely, however, is that investors are awaiting this Wednesday's release of March CPI data, where another high 0.3% month-on-month reading in core CPI data will further thwart the kind of benign conditions required for easing policy.

Currently, the market prices just 62bp of Fed easing this year, and a terminal rate for this easing cycle at 3.65%. The risks are clearly skewed to the market just pricing 50bp of Fed easing this year, pointing to the dollar staying stronger for longer.

Touching on a theme we introduced last week, at a stretch one could question whether the dollar's failure to advance has something to do with de-dollarisation trends. We note that gold is still pushing ahead strongly, and recent data shows that the People's Bank of China has been a consistent buyer of gold. There have been no great signals of China slashing its holdings of US Treasury securities (unlike Russia in 2018), and total foreign central bank holdings of US Treasury securities are pretty steady at around \$3.8tr. Yet this is a trend worth watching, especially given large US Treasury auctions this week, where \$199bn of three, ten and thirty-year Treasuries are on offer. The auctions are held Tuesday through Thursday.

For today, we suspect that DXY will stay bid following Friday's jobs report – but this week's big FX moves will come on Wednesday.

*Chris Turner*

## ↓ EUR: Why is EUR/USD still above 1.08?

It is quite surprising to see EUR/USD trading above 1.08. US rates markets have reacted to the jobs data, but FX markets have not. However, given that two-year EUR:USD swap differentials are now 150bp in the dollar's favour, the pressure for sub 1.08 levels is clearly building.

Looking ahead this week, the highlight of the eurozone's data calendar will be [Thursday's European Central Bank \(ECB\) meeting](#). The ECB is in the much more fortunate position of having a much clearer disinflationary backdrop with which to support an easing cycle.

We suspect that EUR/USD will drift lower into Wednesday's US CPI data and do not see too much eurozone data of note this week.

Elsewhere, the market is keen on a weaker Swiss franc at the moment and will be keen to see what Swiss National Bank President Thomas Jordan has to say in a rare speech at 5:15pm CET today. The market now prices 22bp of SNB easing at the June meeting. If, however, the ECB turns more dovish than the SNB – and given the importance of rate spreads to driving the EUR/CHF rally – the next leg higher to 1.00 in EUR/CHF may be much harder work.

*Chris Turner*

## → GBP: Sterling volatility remains exceptionally low

EUR/GBP volatility remains exceptionally low, where traded options prices are dropping towards realised volatility at under 4%. The prospect of a UK general election later this year has had no discernible impact on FX markets so far and is reminiscent of 1997, where a consistent 20%+ lead in the opinion polls for Labour was no source of drama for sterling.

The UK data calendar remains light for the week ahead. We do have a few Bank of England speakers, however. Today, let's see whether Deputy Governor Sarah Breeden echoes recent remarks from BoE Governor Andrew Bailey that the market is right to price BoE rate cuts this year. She speaks at 5:30pm CET. For reference, markets currently price 75bp of BoE easing this year.

Chris Turner

## ➔ CEE: Inflation prints to change FX direction

Following central bank guidance last week, this week we have a pretty heavy calendar with plenty of hard data from the economy, including inflation prints across the CEE region. Today in the Czech Republic we will see industrial production, foreign trade and construction. Tomorrow in Romania, the final fourth quarter GDP numbers will be released. On Wednesday in the Czech Republic, inflation for March will be published. We expect inflationary pressures to slow further, leading headline from 2.0% to 1.9% year-on-year, slightly below market expectations. On Thursday, March inflation figures will also be published in the rest of the region. In Romania, we expect a decline from 7.2% to 6.7% YoY, slightly below market expectations. In Hungary, we expect a decline from 3.7% to 3.6%, in line with expectations. On Friday In Romania, industrial production and wages will be released, while in Poland and the Czech Republic we will see current account statistics.

CEE FX ended last week with gains across the board and we remain positive to start the week. However, we believe inflation numbers will change the picture this week given the hawkish direction of the market in recent weeks. Particularly in the Czech Republic and Hungary, we believe inflation numbers below central bank estimates will reopen the rate-cutting discussion and may trigger a downward repricing in the rates space. For this reason, we see the HUF most vulnerable this week, having posted a strong rally last week moving below 390 EUR/HUF for the first time since late February. For EUR/CZK, we rather expect an offset of the potential coming from the current higher rates. We expect stabilisation around 25.30 EUR/CZK for now. EUR/PLN reached 4.280 after the National Bank of Poland's meeting – the level we mentioned previously – and we consider it fair for now, unless we see more repricing in the rates space higher, which cannot be ruled out after the hawkish press conference on Friday.

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