

FX Daily: Dollar softening through some big psychological levels

A sharp fall in US headline CPI yesterday helped the dollar soften across the board. In Europe, dollar weakness means big levels at 1.10 and 1.25 are in focus for EUR/USD and GBP/USD. While in the EM space USD/BRL has crashed below 5.00. Some better March trade data out of China overnight suggests the dollar may stay soft in the short term



📌 USD: FX moves more than rates on US CPI data

It seemed that FX markets took far more interest than rates markets in the March US CPI release yesterday. Looking at EUR/USD testing 1.10, and USD/BRL crashing below 5.00, one might have thought it a very dovish number - where headline March CPI fell to 5% YoY from 6%. However, as [our US economist James Knightley points out](#), while the data was encouraging, core inflation is still running at 5.6%, barely budging over the last four months. This slow pace of disinflation has been worrying the Federal Reserve as was seen in the minutes of the 22 March meeting [released last night](#). Were it not for the failures of Silicon Valley Bank and Signature earlier in the month, it seems quite clear the Fed would have raised rates 50bp last month.

Where does that leave FX? It seems that investors are very much welcoming the forthcoming Fed easing cycle (after one last hike in May), they have a conviction call that the dollar will weaken,

and are looking for opportunities - including in this year's laggard the Brazilian real. Investors understand that weaker US regional banks pose a threat to their investment theses, but for the time being, are prepared to write off the failures as some poor risk management amongst a few smaller institutions rather than seeing this as a systemic crisis. In short, it seems investors are content to sell dollar rallies.

Back to the short term, the overnight news is mildly positive for risk in that the China March trade data has surprised on the upside. Both imports and exports were better than expected - dampening the views that China's rebound from Covid has been lukewarm. Also on the positive side of the risk ledger has been some very positive Australian jobs data (the Reserve Bank of Australia's pause could be a short one) and some huge foreign investment into Japanese equities - potentially also a play [on a firmer Japanese yen?](#)

We doubt today's US data has much say in FX markets, but given market sentiment, any large rise in initial claims or sharp falls in March US PPI data could nudge the dollar lower still. It seems the early February low of 100.80 beckons for DXY.

Chris Turner

📈 EUR: ECB will not be blown off course

It seems the message coming through from the IMF and both the Fed and the Bank of England is that policymakers will not be blown off their monetary tightening course by the recent banking turmoil. In its Financial Stability Report [published earlier this week](#), the IMF noted that the threat of unrealised losses on securities in Hold-to-Maturity accounts was a much bigger issue for the US than European banks. Hence, less pressure on the European Central Bank to drop its tightening plans. Look out today for comments from ECB hawk, Joachim Nagel, who may still be pushing for a 50bp ECB rate hike in May. Also, today look out for eurozone February industrial production. Activity in the eurozone has been holding up a little better than expected and provides a supportive backdrop to the ECB story and the euro.

For EUR/USD itself, there is a little feeling of 2007 about all this. That year, the first signs of US financial stress started to emerge in securities backed by subprime loans, and EUR/USD pushed sharply ahead as the ECB tightened policy. Investors may not want to miss out on a modest repeat - after all the Fed staff forecast is now for a mild US recession later this year. In general, we think 1.10 will be a hard nut to crack for EUR/USD. But it is certainly not impossible. Resistance is at 1.1030, above which it is hard to rule out 1.12.

Chris Turner

➡ GBP: 1.2500 under pressure

The soft dollar story is keeping GBP/USD bid near 1.2500 and pressure seems to be building for a move to 1.2650/2750 - again driven from the dollar side. Locally, today's February UK activity data has been flat and will have little bearing on the BoE's monetary policy thinking. Also look out for a BoE quarterly credit conditions survey at 1030CET, where any signs of tighter conditions will be examined closely.

[In his speech yesterday](#), BoE Governor Andrew Bailey spoke little of monetary policy - except to hint that it should not be blown off course by financial stability concerns, We will get more direct

references to policy today from Chief Economist, Huw Pill. Presumably, he will echo those remarks as the BoE waits on next week's release of wage and jobs data for input into the 11 May MPC meeting.

Chris Turner

CEE: Global story propels region to new gains

This morning's data in Romania showed March inflation falling from 15.5% to 14.5% year-on-year, slightly above market expectations, reaffirming the downward trajectory after February's small pick-up in inflation. Later today we will also see inflation numbers from the Czech Republic for March to complete the CEE inflation picture. [We expect a drop to 14.8% YoY from 16.7%](#), in line with the Czech National Bank's forecast but slightly below market expectations. Thus, the March numbers should show some bifurcation in the region's pace of inflation, with a lower profile in Romania and the Czech Republic and a higher rate in Hungary and Poland. Later today, we will also see current account statistics across the region.

In the FX market in the CEE region, the main news is EUR/USD touching 1.10. Moreover, coupled with the positive sentiment following soft CPI numbers in the US, further gains can be expected for the region. As usual, high beta currencies like the Hungarian forint and the Czech koruna should benefit the most. It should be interesting to test levels below 374 EUR/HUF and 23.30 EUR/CZK. The March inflation result will be interesting for the koruna, however, the global story has been playing a major role in recent weeks. The surprise of the week could be the Polish zloty, which yesterday settled below 4.660 EUR/PLN for the first time since December. As we mentioned earlier, the zloty has been tracking global events more than local stories over the last two weeks, which could help it to come out of the shadow as the only underperformer in the region. For now, the key will be whether the zloty breaks through 4.650 EUR/PLN, confirming that local risks are no longer a drag on the market.

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