

FX Daily: Dollar steps back from the brink

Just when it looked like the dollar was going to push ahead, a soft prices paid component of the US March ISM services release dragged the dollar lower yesterday. With Chinese markets shut and little US data today, expect a holding pattern in FX markets ahead of tomorrow's jobs data. We will also see rate-setting meetings in Poland and Romania today



➔ USD: At least we know what's driving the dollar

Having threatened to break higher earlier this week, the dollar sold off yesterday after the prices paid component of the US March ISM services data came in at a four-year low. The data undermined the narrative of sticky services inflation, but as James Knightley discusses [in his review](#), the correlation between survey and hard US data remains very weak. Despite this, US short-dated rates softened, and EUR/USD broke back above 1.08. At least it seems pretty clear what is driving the dollar at present. Should US data prove benign enough to allow the Federal Reserve to cut rates, the dollar should sell off.

Looking ahead, today's data calendar is light. The focus will just be on the weekly initial jobless claims data, and these have been wedded to the 210k area for months. We will also hear from five Fed speakers today. Currently, markets price 72bp of Fed easing this year and a terminal rate for

the easing cycle in three to four years' time at around the 3.60% area. That terminal rate seems quite high and was priced at 3.00% last December. The dollar will move lower if that terminal rate is priced lower. But that will require benign US data – which is far from clear over the next week.

In particular, another 200k+ jobs number tomorrow and 0.3% month-on-month average earnings, plus a 0.3% MoM March core CPI next Wednesday (all of which are consensus) would not be enough to give the Fed confidence that the inflation battle has been won. Yet, as we have seen yesterday, the US data is volatile at present and investors will just have to react to data when they see it.

Is 105 an important near-term peak in DXY? It could well be, but US data will have to come in on the soft side to drag it back to 103 again. For today, DXY should trade in a tight 104.00-104.50 range.

Chris Turner

➔ EUR: The ECB's job looks easier

While the Fed sounds like it would like to cut rates but can't, eurozone price data makes life much easier for the European Central Bank. The eurozone March core CPI data released yesterday came in at just 2.4% year-on-year, the lowest since February 2022. The market attaches a 75% probability to a June rate cut, which seems too low. For today, look out for the February PPI release and the minutes of the March ECB meeting. [The baseline view remains that the ECB requires more data](#) before being confident to cut rates, and that data should be available by the June rather than the April meeting.

As above, EUR/USD enjoyed a nice rally on the soft US data yesterday. Narrow ranges should be expected today ahead of tomorrow's March jobs release. That range today could be something like 1.0800-1.0860/80, with upside risks should initial claims finally start to rise.

Chris Turner

⬇ CHF: Lots of focus on the franc

There have been several media reports of investors wanting to switch their carry trade funding from the Japanese yen to the Swiss franc. CHF implied yields are costlier than the JPY at 1.27% versus -0.16% in the three-month tenor, yet we agree that the yen is substantially undervalued. Additionally, local authorities have diverging views on their currencies. The Japanese think the yen is too weak and are preparing to buy it. The Swiss think the franc is too strong and may have already been selling it this quarter (we will find out in June).

Understandably, there is now much focus on the CHF/JPY cross rate, where the steep bull trend appears to be breaking down and 162 looks to be the initial target for the correction.

Chris Turner

📌 CEE: Poland and Romania keeping rates unchanged for now

Today, we have two central bank meetings in [Poland](#) and [Romania](#). Poland's MPC is broadly expected to keep the National Bank of Poland (NBP) rates unchanged. Inflation probably reached its low in March, and headline inflation is projected to start mounting in the following months as a result of retail energy price normalisation, with prices of electricity in the first half of this year remaining frozen at 2022 levels. At the same time, core inflation remains elevated, and momentum remains high. Given the uncertainty regarding the inflationary outlook, the MPC will likely stick to its cautious approach and may refrain from monetary easing this year. The NBP governor's press conference on Friday may be dominated by the topic of the State Tribunal for politically-driven policymaking.

We remain positive on PLN in the medium term. After the downside surprise in inflation, the market has started to price some rate cuts at the short end of the curve, which we think may be reversed today and tomorrow if the NBP confirms a hawkish stance despite the current inflation developments. This should again support PLN and nudge it towards 4.28 per euro.

In Romania, we expect the National Bank of Romania (NBR) to keep the policy rate unchanged at 7.00% today. While forward guidance is not exactly the NBR's strong point, some hints about a first rate cut at the May meeting might emerge. We keep our call for a 25bp May rate cut and 100bp of rate cuts by year-end, with mild upside risks.

EUR/RON remains very stable within a tight range, just below 4.980. With inflation still printing slightly above expectations and demand-side pressures building up in the economy, even a marginal shift higher doesn't look imminent. Moreover, the possible increase in the tax burden next year at a time of projected growth acceleration adds to the medium-term inflationary risks and, by extension, FX stability will be needed further down the line. We maintain our 5.04 year-end estimate, but – as usual lately – we underline that the chances for an essentially flat nominal FX rate this year are considerable.

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