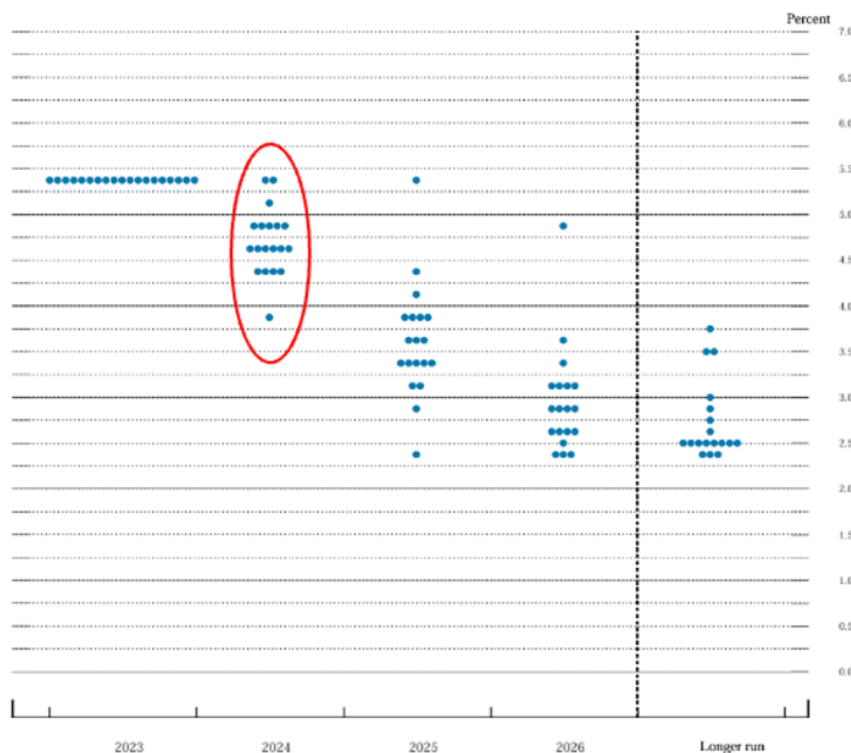


## FX Daily: Dots in focus

The dollar is doing a little better as investors prepare for tonight's FOMC meeting. Consensus is not looking for any significant changes in the statement or the Fed's economic projections. If there is a risk, it lies in a less dovish/mildly dollar positive outcome. Elsewhere today sees rate decisions in the Czech Republic and Brazil, plus UK CPI



### ➔ USD: Does the Fed continue to expect three cuts this year?

It is FOMC day and the focus tonight will be on the Federal Reserve's statement, the economic projections and Fed Chair Jay Powell's press conference. As James Knightley [discusses in our Fed preview](#), it would only take two FOMC members shifting their expectations for the Fed dot plots to show two instead of three rate cuts this year. Markets currently price only 70bp of Fed rate cuts this year, and thus a shift to just two expected cuts would open the way for higher short-term US rates and a modestly stronger dollar.

Today's FOMC meeting should also set the dollar tone for the next couple of weeks since the next

key US data release is not until 29 March, when the February core PCE deflator is released. The consensus for that number is already an awkward 0.3% month-on-month reading. This would again interfere with the Fed's disinflation narrative.

The dollar still seems to be lagging the recent pick-up in US rates and even if the Fed did stick with three expected cuts this year, we doubt the dollar would sell off for long. We really need to see the data turn lower for a noticeable dollar bear trend to now emerge.

DXY to stay bid in a 103.50-104.00 range heading into the FOMC meeting.

Elsewhere, there will be much focus on the Brazilian rate decision tonight. Another 50bp cut should be delivered but the central bank may row back from promising further 50bp cuts at future meetings.

*Chris Turner*

## ➔ EUR: ECB big hitters on the wire today

EUR/USD ended lower yesterday despite a bounce in the German ZEW investor survey back to levels last seen in early 2022. Most likely positioning ahead of tonight's FOMC meeting is dominating and the dollar is playing a little catch-up with last week's rise in higher short-term rates. Out of the eurozone today we have March consumer confidence plus also five European Central Bank speakers. Amongst those five are the big hitters Christine Lagarde, Isabel Schnabel and Philip Lane. Expect a repeat of the central message that more data is required before the ECB can seriously consider a rate cut at the June meeting. EUR/USD probably risks a drift to the 1.0800 area pre-FOMC.

In the UK we get to see February CPI. The key services inflation number is expected to fall to 6.0% year-on-year. That move is widely expected due to base effects and probably does not move the needle for Thursday's [Bank of England meeting](#). We see that meeting presenting upside risks to sterling – EUR/GBP to test 0.8500 – if as we expect, the BoE keeps forward guidance the same and provides few clues around the timing of the first rate cut.

*Chris Turner*

## ⬆️ CZK: CNB to cut rates by another 50bp

The Czech National Bank is scheduled to hold its second meeting of the year today. After last week's statements, we were forced to revise our expectations from a 75bp rate cut to a 50bp cut to 5.75%, which implies the same pace of rate cuts as in February. Today's meeting is without a new forecast and the board will only discuss an internal update. However, the numbers released since the February meeting have surprised in mostly dovish ways, including large surprises in headline and core inflation. However, the board wants to stay on the safe side, which we believe is mainly due to the weaker koruna and the experience of FX weakness after the last rate cut. Nevertheless, we expect to see two votes for a 75bp rate cut today, which, coupled with our inflation outlook falling below the central bank's 2% target in the coming months, should keep the story unchanged. That said, we believe a 75bp rate cut remains on the table for the next meeting and so will be looking for cues today on how close the board is to speeding up the pace of cuts in future.

The market has adjusted its expectations slightly after the hawkish CNB statements last week but

still maintains some probability for a move higher than 50bp today. A 50bp move should thus be seen as hawkish despite last week's indication. However, as mentioned earlier we expect the vote split and inflation outlook to keep the dovish tone of the meeting. Thus, we expect a flatter FRA curve and at the same time, the IRS curve should not suffer too much especially at the belly and long end given the sell-off in recent days across the board. Thus, today's meeting should not have too many implications for the CZK. In our view, higher rates at the short end of the curve point to a lower EUR/CZK around 25.200, where we could see the end of the day, or slightly lower.

*Frantisek Taborsky*

## CEE: Headline risk is gone and PLN remains cheap

In addition to the CNB meeting in the Czech Republic, in the CEE region, several releases will be published today. This morning we could see industrial production in Romania. And later we will see data from the labour market, industrial production and PPI for February. According to our forecasts, industrial output growth remained subdued in February, although recent PMI readings give some hope of recovery. Wages in the enterprise sector continue to rise at a double-digit pace. The labour market remains tight and the scarcity of labour, along with high minimum wage increases, is putting upward pressure on wages.

Poland's zloty rebounded yesterday even though the political noise around the central bank hit the headlines as we expected. Markets seem to have fully got used to headlines of this nature and weaker PLN levels in recent days may thus be an attractive entry level since this risk is off the table for this week. As we discussed yesterday, EUR/PLN has broken away from rates significantly and we think this gap will be closed by a move back to 4.300 in the coming days.

*Frantisek Taborsky*

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