FX Daily: Dovish Powell keeps dollar bulls in check

The Fed's nod to the recent run of stronger US data was a soft one at last night's FOMC meeting, and it was clear that the Powell Fed would love to cut rates given half a chance. This has taken the steam out of the stronger dollar and puts the ball fairly back into the court of the US data calendar - especially tomorrow's jobs report. Look out for a CNB meeting today

Jerome Powell, Chair of the Federal Reserve

USD: Powell holds the dovish line

The dollar closed yesterday's FOMC day lower, as it had done for the three prior FOMC meetings. We and the market were a little surprised that there was no further assessment of the strong US activity data or particularly the high inflation data and instead, Fed Chair Jerome Powell merely reiterated the recent line that it would take longer for the Fed to gain confidence to cut rates. As we discuss in our Fed review piece, the dollar seemed to react the most to comments from Powell that a rate hike was unlikely and that yesterday's JOLTs job opening data showed restrictive policy was working. The 10bp drop in rates at the short end of the US curve was enough to see DXY sell-off 0.5%.

When trying to recover yesterday, the DXY received another hit when Japanese authorities were thought to have intervened again late in the US afternoon – a time of thin liquidity and perhaps a reminder that intervention will still very much be an option during Japan's four-day public holiday starting tomorrow. Given that the Bank of Japan is thought to be selling large clips of dollars – perhaps as much as $20-35bn per intervention session – the market is already starting to consider the size of available FX reserves for this purpose. We think Japanese authorities will intervene sparingly but are probably hoping they can stabilise USD/JPY ahead of a broad turn lower in the dollar, just as they did in September/October 2022.

The US data calendar is quite light today and the market will take its cues off tomorrow's payrolls. There is a school of thought building that if the unemployment rate finally responds to slowing labour demand and pushes up to say 4.2% (current 3.8%) by September, the Fed can cut rates. Let's see what tomorrow's jobs data has to say.

For today, DXY should trade well within the confines of its new 105.50-106.50 range.

Chris Turner

EUR: Parity slightly less fashionable

Some better-than-expected eurozone growth figures this week and a Fed still minded to cut rates has seen EUR/USD edge back above 1.07 this week. Calls for parity seem a little less fashionable after the European Central Bank appears to be shying away from a divergent path (after a nailed-on single 25bp cut in June) and the Fed no cut/hike scenario seems slightly less likely.

We have several measures of EUR/USD medium-term fair value near 1.08, and factors calling for a significant deviation from that are weakening. One of those factors is energy prices, where the relative calm in the Middle East has allowed crude to settle back to mid March levels.

We cannot see many scheduled events moving EUR/USD today, which should continue to trade well within a 1.0650 to 1.0750 range into tomorrow's US jobs report.

Chris Turner

CHF: Re-pricing of ECB curve lifts EUR/CHF

EUR/CHF is trading close to the highs of the year above 0.98. This largely looks down to a back-up in eurozone swap rates, where two-year rates have risen 60bp since January. However, Swiss short-dated swap rates remain anchored just above 1.00% and the widening swap differential has dragged EUR/CHF higher again.

Currently, ING's house view is that the ECB will cut rates three times this year versus current market pricing of just 68bp. If we are right with our ECB call, EUR/CHF may not have to rally too much further. We have near-term forecasts near 0.98 and a year-end forecast of 1.00 on the view that the SNB proves more dovish (including the use of its FX policy) than the ECB.

Chris Turner

CZK: CNB to continue to cut rates by 50bp

Today, we have the Czech National Bank's third meeting this year, which will bring not only rate decisions but also a new central bank forecast. We are in line with market expectations and forecast another rate cut of 50bp to 5.25%. This means a continuation of the cutting cycle at the same pace as in February and March. This has been indicated by board members in interviews over recent weeks, and we do not see much room for a surprise here today. The new forecast and the pre-announced analysis of the neutral rate in the Czech Republic, or the change to the earlier estimate of 3%, will there receive a bit more attention. The new forecast should show significantly lower inflation than the February forecast given the degree of deviation in January. On the other hand, GDP growth and EUR/CZK should be revised higher. However, the key for markets today will be the board's view on the staff analysis of the neutral rate, which could show where the CNB is heading in the cutting cycle.

EUR/CZK has traded in a quiet environment versus its CEE peers in recent weeks, slowly moving down to the strongest CZK levels since the February depreciation. Given the current market pricing of the rate cycle with the terminal rate slightly below 4%, we believe today's meeting should not change much and EUR/CZK should hold near 25.10.

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