

FX Daily: Downside sterling risks on Spring Statement

FX markets are in a holding pattern ahead of next week's reciprocal tariffs from the US. Some of the recent euphoria is waning and today sterling may see some downside risks from the Spring Statement. Elsewhere, the Czech National Bank is expected to hold rates at 3.75%, and Turkish markets are starting to settle after last week's volatility



UK Chancellor Rachel Reeves delivers her Spring Statement today

➔ USD: Holding pattern

The DXY dollar index has found some support under 104.00 helped by a little more stability in US asset markets. The S&P 500 has retraced about 40% of this year's losses, helped in part by the view that Washington's next round of tariffs due on 2 April could be a little more lenient or selective. Of course, this is a moving target, but no doubt the Administration will be taking keen note of the [dip in US consumer confidence](#) and what it could mean for broader growth trends should the US consumer finally decide to save a little more.

Next week's tariff announcement also needs to be seen in the context of any 'Mar-a-Lago'-type plan for restructuring the global trading system. The key understanding in this plan is that the

dollar would initially rally on the back of tariffs to provide protection to the US consumer. This may still be the case if the tariffs are aggressive enough against the EU and China – two of the largest trading blocs running large surpluses with the US.

In the interim, however, expect the dollar to trade in relatively tight ranges while also finding a little support from Fed-speak, pointing to no rush for the next rate cut. We'd also say that if the US got into any stagflation-like scenario, it would be bullish for the dollar against activity currencies.

DXY should trade a tight 104.00-104.50 trading range, with upside risk should a weaker sterling take European currencies lower today.

Chris Turner

➔ EUR: Tariff risks look under-priced

After a violent first half of the month, the EUR/USD market is calming down. One-month traded volatility has fallen to 7% from 9%, and one week has fallen to below 8% from above 11%. Stability in US asset markets has certainly helped, as has a rethink about how quickly new fiscal stimulus or defence spending stands to lift eurozone growth. Notably, during all this month's volatility, the market still prices the landing rate for the ECB easing cycle in the 1.75-2.00% zone – i.e. there has not been a substantial upward revision here.

We do, however, think that financial markets are under-pricing the risk to the euro from next week's tariff news. The EU (led by Germany) runs a large trade surplus with the US and will likely, alongside China, be at the forefront of Washington's reset on global trade. We've got a [1.05 forecast](#) for EUR/USD by the end of the second quarter on the back of the tariff story.

EUR/USD has support at 1.0765/70 and could be dragged to 1.0730 if the pound weakens following today's Spring Statement.

Elsewhere in Europe, our team expects the Czech National Bank to [leave rates at 3.75% today](#), before probably delivering a final cut in May. The koruna has been performing well and looks likely to hold onto its gains today.

Chris Turner

⬇ GBP: Tighter fiscal, looser monetary policy to hit sterling

UK Chancellor, Rachel Reeves, delivers her 30-minute Spring Statement at 13CET. The crux of the story is how she will likely cut spending for the UK to meet its fiscal rule. Widely trailed in the press is the need to rein in about £15bn of spending through [welfare and other departmental spending cuts](#).

Also widely expected will be the OBR's downward revisions to growth estimates.

Where the jeopardy lies for the Chancellor is with the bond market. Should spending cuts be far too back-loaded to be credible, or if the government sails too close to the wind with its gilt issuance plans, we could see a repeat of January's gilt and sterling sell-off. For reference, consensus in the bond market is that gilt supply for FY25/26 will be around £302/304bn, with some estimating it could be as wide as £320bn. With UK 10-year gilt yields already at 3.75% and underperforming US Treasuries, any £320bn gilt issuance figure (likely announced around

1330CET) would hit sterling.

At the same time, it looks like the market is under-pricing this year's Bank of England easing cycle. The market prices just 40bp of easing, while we see a risk of three more 25bp cuts. The narrative of tighter fiscal and looser monetary policy should be sterling negative. GBP/USD looks vulnerable to 1.2860 and possibly 1.2800 today.

Chris Turner

➔ TRY: Some calm returns

This time last week we saw a very disorderly sell-off in the world's favourite carry trade – the Turkish lira. Estimates suggest up to \$20bn of foreign money invested in the carry trade left the lira as USD/TRY briefly spiked 10-12% before Turkish authorities could get the market under control. Heavy FX intervention and TRY liquidity draining operations were used by the central bank to support the lira, as was directing borrowers to the overnight lending facility – which had been raised 200bp to 46%. Having spiked to 75% late last week, TRY one-month implied yields through the forwards have now dropped back to 48% – but are still way off the 35% levels seen late last week.

The sell-off in the lira has proved a shock for the market, and even though the central bank seems to have USD/TRY under control again, renewed carry trade interest is unlikely to be as intense as seen over the last 18 months.

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