FX Daily: Emerging FX in demand

The dollar remains gently offered in quiet conditions. In the absence of important US data this week, investors are continuing to speculate over whether US trade deals with Asia will involve a currency element. And with conviction growing that the dollar has put in an important top, emerging market currencies around the world are catching a bid

Latin America seems to have avoided the worst of the US tariffs, and the relatively high implied yields available are proving attractive

USD: Gently offered

FX markets have started the week in quiet fashion. US President Donald Trump's two-hour call with Russian President Vladimir Putin appears to have yielded few results and left European leaders with the view that they're on their own in support of Ukraine. Let's see whether oil and gas prices spike again – they have not so far.

One new trend over the last week is that most emerging currencies around the world are rallying against the dollar. In Asia, it is speculated that a currency agreement could be included in any US trade deal that is helping. In Latam, the region seems to have avoided the worst of the US tariffs and the relatively high implied yields available (Brazil 14% 1m implied yield through the non-deliverable forward, Mexico 9.3% through the deliverable forward) are proving attractive. The same can be said of the high return, high risk Turkish lira (43%) and the South African rand (7%). In Europe, the CEE region has had its political challenges, especially in Romania, but the currencies are performing quite well as EUR/USD rises. If the Federal Reserve does ever start cutting rates and

– more importantly – volatility settles some more, we will start to hear more about dollar-funded carry trades. This could be a story for this summer.

In the absence of US data this week, there's some focus on the meetings of G7 central bank governors and finance ministers in Canada starting today. We published quite a speculative article yesterday on any possible language change in the communique. The meetings do, however, provide opportunities for FX policy to be discussed, and USD/JPY is slightly offered today on news that the US and Japan's finance ministers will discuss FX policy this week.

In the absence of data today, the US calendar only offers Fed speakers. Fed hawks are talking about the need for just one Fed 25bp cut this year, versus the 55bp priced in by money markets. We doubt the dollar needs to rally too much on those remarks and instead it will be driven by tariff news, the performance of US Treasuries (watch out for the 20-year auction tomorrow) and hard US data.

DXY has drifted close to 100, and we have a slight bias to the 99.20 area this week. Please see our May edition of FX Talking for all our latest views.

Chris Turner

EUR: Balance of Payments in focus today

EUR/USD edged up in quiet markets yesterday. We think the euro is continuing to derive some support from the ongoing risk premium in the dollar. Here, the US Treasury 10-year swap spread – a measure of US sovereign credit risk – remains quite wide at 54bp.

What interests us today is the release of the eurozone's current account data for March. Did foreigners continue to pour money into eurozone equity markets? In February, foreigners bought a lot of eurozone equities, eurozone residents repatriated funds from foreign equity markets, and the result was the single largest monthly inflow on the equity account since October 2022. In other words, today's data will shed more light on the 'rotation' thesis – flows out of the US and into eurozone equities.

In terms of data today, we'll get an update on eurozone consumer confidence. And we'll hear from a couple of European Central Bank hawks this morning: Pierre Wunsch and Klaas Knot.

We slightly favour EUR/USD exploring the upside in quiet markets. A move through the 1.1265/1300 area can open up 1.1380.

Chris Turner

GBP: BoE's Pill speaks at 10:00am CET

Yesterday's UK-EU did not prove a game-changer for sterling after all, but it still should prove mildly supportive for sterling this summer. More important this week will be tomorrow's release of the UK May CPI data and whether the services component is finally starting to fall.

Before that, Bank of England Chief Economist Huw Pill speaks at 10:00am CET today. As a chief economist, it was rare to see that he dissented from last week's BoE decision to cut rates. Unless he's turned substantially more dovish over the last week (unlikely), sterling faces some upside risk from his comments today. GBP/USD could be knocking on the door at the year's highs of

1.3400/3440.

Chris Turner

AUD: RBA seen as a little more dovish

AUD/USD briefly sold off around 0.3% on the Reserve Bank of Australia's decision to cut rates 25bp today to 3.85%. It looks like it might have considered cutting 50bp. The market prices 37bp of cuts by the 12 August meeting and has a landing zone of about 3.00% for the policy rate next year. With the jury still out on global demand as the tariff war rumbles on, we think AUD/USD can remain pretty steady near 0.65 over the coming quarters.

Chris Turner

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com