

## FX Daily: Equities-oil mix driving G10 divergence

Risk sentiment resilience, paired with lingering upside risks for crude prices, can keep driving outperformance of oil currencies (NOK, CAD) versus the low yielders. The yen remains in a poor position, but interventions may not be far. The dollar has recovered a bit of ground, but beyond war headlines, the upcoming Warsh hearing may emerge as a key downside risk



Between the G10 oil currencies, we currently favour the Norwegian krone given the country's stronger domestic outlook

We've just published a [new scenario analysis for oil, rates and EUR/USD](#)

### ➔ USD: A reminder oil prices remain volatile

The dollar recovered some ground yesterday on the back of firmer oil prices. Despite encouraging headlines around the US and Iran discussing a longer truce and a ceasefire between Israel and Lebanon, there still isn't enough clarity to justify a sustained move below the \$90 95/bbl range in Brent or above 1.1850 in EUR/USD for now. A media report also suggested that European and Gulf officials expect any US Iran deal to take around six months, despite US President Donald Trump claiming it could happen "soon".

Equities, however, remained resilient, supporting outperformance among the canonical G10 oil currencies, the Norwegian krone and the Canadian dollar. Between the two, we favour NOK, given the more supportive domestic backdrop. We expect Norges Bank to hike in May, while the Bank of Canada is likely to remain more cautious amid risks linked to USMCA renegotiations in the coming months.

The yen remains the big loser at the moment, with another speculative attempt at retesting the 160.0 intervention line ongoing. Japanese authorities let USD/JPY run to 160.4 in late March without intervening, but perhaps now the tolerance band is a bit lower given the improving geopolitical picture.

Today's US calendar is empty, and a wait and see mood may dominate ahead of the next round of US Iran talks. Federal Reserve speakers will remain in focus, although they have struggled to meaningfully steer rate expectations lately.

Kevin Warsh's hearing on 21 April is the next notable event in this respect. Interestingly, FX options show little anticipation of large moves, possibly reflecting the view that elevated inflation gives Warsh room to diverge from President Trump's dovish preferences. Still, we cannot ignore some downside risks for the dollar, especially with markets still not pricing a full rate cut by year end.

*Francesco Pesole*

## ➔ EUR: We now expect a June hike

We retain a preference not to chase EUR/USD rallies above 1.180 until there is greater clarity on a Middle East peace plan and a new regime for the Strait of Hormuz. Yesterday's rebound

For the European Central Bank, IMF week in Washington has not delivered any meaningful new guidance. Both ECB President Christine Lagarde and Joachim Nagel said that the current environment sits between the ECB's baseline and the adverse scenario – effectively between zero and one to two hikes. We [updated our ECB view](#) yesterday and now expect one hike in June followed by a prolonged hold.

*Francesco Pesole*

## ➔ GBP: Political risk returns

Sterling came under some pressure yesterday afternoon, seemingly on the back of a news story that the UK government had overruled a failed vetting of former ambassador to the US Peter Mandelson. Earlier this year, the Mandelson scandal prompted some calls for the resignation of Prime Minister Keir Starmer. This would be GBP-negative given a perception that a leadership change could herald additional borrowing and changes to the fiscal rules.

Starmer's approval rating remains very low, but the Polymarket probability of him resigning by the end of June has declined sharply from 50% to 20% since the start of the war, before rebounding to 40% yesterday. The Mendelson scandal could, however, put Starmer in a slightly more precarious position ahead of the 7 May local elections, where Labour is expected to lose a large portion of council seats to Reform UK and the Greens.

Yesterday offered an example of how the pound remains highly reactive to political noise, which reinforces our bullish bias on EUR/GBP alongside our call for no hikes by the Bank of England. We

still target 0.880 this quarter.

*Francesco Pesole*

## ➔ DKK: Larger rate hikes coming?

EUR/DKK broke above the 7.4730 mark this week. That is often seen as a line in the sand that the Danish central bank (DN) likes to defend with FX intervention, as it did in 2019-2020. While we are still talking about minuscule deviations relative to the 2.25% band set by the central bank around 7.460, this week printed the highest intraday levels since 2020.

Interestingly, DN did not intervene during the EUR/DKK rally in January, which we believe was exacerbated by the Greenland risk, nor in March when the pair traded close to 7.4730. If DN isn't intervening this month either (we'll know in early May), despite a breach of 7.4730, we'll grow more suspicious that the central bank is considering tightening the rate gap with the ECB's deposit rate, currently at 40bp.

That would naturally be a more sustainable solution to EUR/DKK upward volatility, which remains in part driven by the rate differential. A hike might happen as early as the 30 April meeting (the Danish central bank always announces on ECB day), or perhaps at the June meeting, when the ECB is also expected to hike, and DN could deliver a larger increase. So far, swap points show a low implied risk of a re-tightening of the rate spread.

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