FX Daily: EUR/USD can return to 1.15

The modest rebound in US equities yesterday shows markets remain jittery despite China tariff exemptions. The dollar has failed to rebound despite a recovery in Treasuries; we doubt the confidence crisis on USD can be unwound rapidly. A return to 1.15 may be the next move for EUR/USD as the euro remains a preferred channel for safe-haven flight from USD

USD: Still downside risks

US equities and bonds had a good Monday, but considering the width of Trump's announced exemptions from China's tariffs, the move is well short of exceptional. Markets retain a substantial risk premium attached to US assets, including the dollar. That ranges between 2% and 5% across different G10 currencies, in our estimates, although the recent instability in traditional correlations and unnaturally high FX volatility means those deviations shouldn't be taken at face value. We'll see whether hints that auto tariffs may be watered down are followed up with some more clarity today.

Anyway, the option market is sending clear signals that markets remain heavily bearish on the dollar, and price action on Monday suggests investors are still minded to sell USD in the rallies. The rationale here is that even if we have seen the worst in US market dysfunctionality, a deterioration of US data is likely on the way, and the damage dealt by "chaotic" trade policy decisions won't be unwound quickly.

Yesterday, Treasury Secretary Scott Bessent rejected the possibility that foreign nations (presumably China) are dumping US Treasuries. He attributed bond losses to deleveraging and while affirming the Treasury has many tools to support the market, we are far from those levels.

The balance of risks remains tilted to the downside for the dollar, regardless of broad stabilisation in the Treasury market, in our view. The data calendar includes the Empire Manufacturing index today, which is expected to rebound while staying in negative territory. Yesterday, we saw a 0.4% increase in NY Fed 1-year inflation expectations, although the survey dates back to three weeks. The more up-to-date University of Michigan survey showed a spike in inflation expectations to 6.7%, although the sample is rather small and could be politically biased.

Francesco Pesole

EUR: ZEW may overestimate sentiment drop

The German ZEW surveys published today are the first activity indicators to be released in the eurozone since "liberation day". Remember that respondents are financial market experts, not business managers like the Ifo. Consensus is for a big drop in the expectation gauge from March's 52 to 10 on the back of tariffs. However, some responses may have been collected before the tariff pause announced last Wednesday by Trump. Markets may not dwell too much on a soft figure.

EUR/USD is overbought and overvalued, but we have observed strong buying interest around 1.130, and we still think the near-term bias is towards 1.15 rather than 1.12 from the current 1.135. After all, the USD slump remains largely a function of the loss of the USD's appeal as a reserve/safe-haven asset, and the euro's high liquidity character should continue to absorb a lot of the rotation. The major risk at this stage is perhaps very dovish signals by the ECB as it cuts tomorrow, although markets are pricing in 75bp of total easing this year, so the bar is set relatively high.

Elsewhere in Europe, the UK released jobs figures for March this morning. Payrolls fell more than expected, extending 2024's modest private-sector downtrend, though these numbers often see upward revisions. Despite survey warnings, there's little hard evidence yet of the employer tax hike triggering layoffs. Wage growth came in softer than consensus, but underlying private-sector pay dynamics remain firm. With unemployment data still unreliable, payrolls are the key metric to watch. Bottom line: nothing here to shift the BoE's stance. We stick to our call for a May rate cut, followed by quarterly cuts into 2026.

With ECB and BoE upcoming cuts (tomorrow and in May) fully in the price, EUR/GBP remains almost solely a function of risk sentiment. EUR's safe-haven appeal means further selloffs will take EUR/GBP back higher. Equity futures point to more tentative stabilisation, meaning the pair can continue hedging lower towards 0.850, also helped by the ECB's moving first on easing.

Francesco Pesole

CAD: CPI today ahead of tomorrow's BoC

The CPI print in Canada this afternoon can swing expectations for tomorrow's Bank of Canada meeting, which we preview here. Consensus is for a tick higher in March inflation, both on the headline (from 2.6% to 2.7%) and core measures (median and trim rising to 3.0%). If inflation doesn't surprise on the downside, markets may consolidate the marginally prevalent view that the BoC will stay on hold tomorrow, which is also our call.

Still, the BoC and Canadian inflation should remain a secondary driver to global equities and the USD's confidence crisis for USD/CAD. We estimate USD/CAD is trading 2% below its short-term fair value. That is entirely in line with the idiosyncratic risk premium on the USD due to recent turmoil in US markets.

As discussed above, we don't think there will be a rapid unwinding of that risk premium, so USD/CAD can continue to trade below 1.40 for now. A hold by the BoC would help sustain CAD gains, even if it won't be a game changer.

Francesco Pesole

CEE: Market disinterest in the region

Today we will see the final inflation numbers in Poland for March, likely confirming this year's peak inflation at 4.9% YoY. In Hungary, the NBH deputy governor candidate and ex-CEO of the debt agency Zoltan Kurali will have a hearing in parliament which can show us for first time his monetary policy bias. However, in current environment would be surprising if he doesn't stick to consensus hawkish NBH view.

Monday trading indicated a lack of interest in CEE markets these days, and of course, the next move will again be determined by global events. The market is likely to remain in this muted mode this week and next. However, later on, we will get closer to the central bank meetings in late April and early May, which should again attract market attention. Rates space is becoming more immune to spikes in the core markets, and at the same time, it is hard to be received in most places in CEE, given the current dovish market pricing. At the same time, the equity market rally has not translated into the usual rally in CEE currencies either yesterday. It's almost as if the CEE market did not want to be dragged into this global mess. Given the lack of conviction in the direction of the markets, we prefer relative value within CEE, as discussed here yesterday, and maintain a stronger CZK view vs the rest of the CEE market.

Frantisek Taborsky

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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

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

Disclaimer