FX Daily: EUR/USD optimism starts to wane

EUR/USD is drifting lower as the market mulls the whole host of inputs currently in play. The one month EUR/USD risk reversal, marking the cost of a euro call option over an equivalent put option, is reversing the bullishness seen earlier this month as investors brace for a new chapter in the trade war next month. For today, US consumer confidence will be key

USD: Focus on consumer confidence

The DXY dollar index is back above 104 again as European currencies soften a little. The latest reports suggest a US government shutdown this weekend has been averted as the Democrats in the Senate prepare to pass the House bill agreed earlier this week. While that may be seen as an excuse for a mild uptick in US equities, there are much bigger forces in play - such as the path for tariffs and whether subdued US consumer and business sentiment is going to weigh on real activity. For reference in a speech last Friday, Federal Reserve Chair Jerome Powell said that 'sentiment readings have not been a good predictor of consumption growth in recent years'.

For today, the US focus will therefore be on the 1500CET release of March Consumer sentiment.

These readings have fallen quite sharply over the last two months and any further large drop could weigh on the dollar today. However, the bigger reaction here may come next Monday when the February retail sales figure is released. Consensus expects quite a large rebound after January's drop (-0.9% month-on-month headline, -0.5% core). Failure for that rebound to materialise is a downside risk for the dollar.

Elsewhere, comments on the dollar from Treasury Secretary Scott Bessent gained some attention yesterday. He said that this year's dollar sell off is a 'natural adjustment' after last year's rally. We doubt that means much/anything for the US Treasury's dollar policy and he's just acknowledging the noise/disturbance this 'transition' period is having on the US economy. Ultimately we think Washington would like a weaker dollar, but a global trade war is dollar positive.

DXY to trade in a tight range today - perhaps between 103.70 and 104.30.

Chris Turner

EUR: Some modest reappraisal of the euro

The FX options market had been warning about last week's upside spike in EUR/USD. However, the latest indications suggest EUR/USD upside appetite is fading. Here, the one month EUR/USD risk reversal has softened quite a lot. Last week, this pricing showed a skew for euro calls over euro puts of +0.45%. That was the most bullish the market had been in this one month tenor since 2021. However, that skew has now dropped to -0.14% in favour of euro puts. Helping that switch in sentiment is probably the looming threat of tariffs in early April. There seems little love lost between European and US leadership currently, and next month's reciprocal trade tariffs could see Europe hit hard.

At the same time, the market is focusing on developments in the German lower house - the Bundestag. CDU leader Friedrich Merz is trying to get the Greens on board to pass constitutional debt-brake reform and the EUR500bn infrastructure package. There could be a lot more noise to be had in these negotiations as the Greens try to secure key concessions ahead of a crucial vote next Tuesday. Any headlines that the Greens are refusing to back the bill stand to hit EUR/USD intra-day.

After the close today, we'll also see Fitch rating agency's latest review on France. Our colleagues in Rates Strategy think it may be too early for Fitch to cut France from AA- after only shifting to a negative outlook last October. And the surprise remains how core and peripheral eurozone government bond spreads remain so tight to German Bunds in spite of looming defence spending plans.

Tariff news and German politics is a downside risk to EUR/USD today. Soft US consumer confidence data is an upside risk. 1.0810-1.0880 could be the EUR/USD range today.

Chris Turner

JPY: Wage requests not quite as high as expected

USD/JPY is edging higher in early Europe as Japan's largest labour union, Rengo, agreed a 5.46% wage increase for the coming year - perhaps a little lower than early speculation of 6%. However, today's agreement keeps the virtuous cycle of higher wages, higher consumption and higher prices in play and suggests the market is very much under-pricing the risk of a Bank of Japan rate hike in May. A 25bp hike is priced with only a 14% probability, whereas a hike in May is ING's house call.

We certainly see yen outperformance on the crosses over coming months, led by tariff unrest in April and a BoJ rate hike in May. And unless we see some strong bounce back in US data, it will be difficult for USD/JPY to sustain a recovery over 150 near term.

Chris Turner

PLN: Rate cuts later rather than sooner

As expected, yesterday's press conference from the National Bank of Poland brought a clearly hawkish tone. Governor Adam Glapinski touted the strong economy, the administrative reasons behind higher prices, and foreign inflation risk. Although any cuts this year seemed to be excluded from the governor's communications, the conclusion of the speech suggested that if inflation falls in the second half, there is some chance. Our economists believe the second half of the year will be more favourable from an inflation perspective and we should see a rate cut in September. However, markets are focused on the July meeting, which seems less and less likely after yesterday's press conference.

Today in Poland, February inflation will be released. Our economists expect a rise to 5.4% year-on-year from 5.3%, while the market expects no change. We may also see a revision to the January number given the new CPI weightings.

Although the market read the press conference as hawkish, PLN rates did not have much of a chance to react due to downward pressure from core markets. However, we could still see the interest rate differential widening, supporting a stronger currency in line with our expectations from yesterday. EUR/PLN has moved towards 4.180 and we believe there is further room towards 4.160.

Frantisek Taborsky

Author

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

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

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.