

## FX Daily: Euro and yen don't have much room for recovery

The dollar has had a strong week on the back of further hawkish re-pricing of Fed rate expectations, and the low-yielding EUR and JPY may remain on the back-foot in the near term. Elsewhere, Canada's jobs numbers should not dent 50bp hike bets



### ➔ USD: Many developments to watch worldwide

A week dominated by sharply rising rates and further hawkish re-pricing of the Fed's rate and quantitative tightening expectations has seen the dollar appreciate across the board. The low-yielders are naturally the biggest underperformers in this scenario, and we have seen EUR/USD stabilise in the 1.08/1.09 area and USD/JPY inching closer to 125 once again.

There's an ongoing debate on whether the Bank of Japan will step in with FX interventions after Japanese politicians expressed concerns about the yen's volatility. As [discussed in this article](#), we think that interventions are unlikely with USD/JPY trading below 130 or even 140. We think that fast tightening by the Fed, a deteriorating Japanese balance of payment position and a dovish BoJ will continue to keep USD/JPY supported this year, and any bearish correction may not prove sustainable.

Elsewhere in G10, commodity currencies are losing some momentum as oil prices edged lower, with AUD and NZD facing the negative spillover of China's worsening Covid situation. Shanghai reported 20,000 cases in one day, and there have been reports of residents pushing back against the strict lockdown rules in the city. In our view, as long as Beijing sticks to its zero-tolerance approach on Covid, the upside potential for AUD and NZD is set to prove limited.

We have seen a lot of Fed speak this week, and yesterday James Bullard doubled down on his recent hawkish statements by calling for up to 300bp of tightening this year. There are no scheduled speakers today, and the US data calendar is very quiet. Developments in Russia-Ukraine peace talks, which appear to have stalled again, and commodity movements may mostly drive FX moves today.

Any potential correction in the dollar after a long rally should prove short-lived given the strong underlying current generated by Fed tightening expectations.

## ⬇ EUR: Coal ban and French elections to keep upside capped

The EU took the first real measure against Russian energy exports as it banned Russian coal (as well as trucks and ships) starting from August. The EU imports around 45% of its coal from Russia.

The notion that EU countries are starting to accept they'll have to pay a price to hit the Russian energy sector – despite oil and gas remaining away from any ban for now – could contribute to keeping the euro on the back foot in the near term. We continue to see mostly downside risks for EUR/USD, although a break below 1.0800 may not be a story for today.

Over the weekend, the first round of the French presidential elections will be a key focus. As highlighted in our [market guide to this risk event](#), a strong performance by Eurosceptic candidate Marine Le Pen might prompt a build-up in political risk on sensitive assets and add pressure on the euro.

## ➡ GBP: Showing resilience

Despite the dollar's good momentum, Cable has been holding above 1.3000, which may prove to be a quite solid support for now. After all, the market's dovish repricing of BoE rate expectations has been relatively contained, and the OIS pricing continues to embed 5+ rate hikes by the end of this year. This is ultimately offering some support to the pound in the crosses, and EUR/GBP may soon break back below 0.8300.

Today, there are no major data releases in the UK, and external drivers should dominate.

## ➡ CAD: Jobs data in focus

USD/CAD has rebounded from the 1.2400 area to 1.2600, with the loonie following other commodity currencies lower on the back of weaker crude prices. Today, the focus will shift to domestic factors. The release of March's jobs numbers in Canada is seen as key to direct market expectations ahead of the 13 April Bank of Canada meeting.

In line with consensus expectations (around +80k), we expect to see a pull-back in the headline employment number after February's very strong read. That said, employment is already above pre-pandemic levels, wage growth may accelerate, and the economic backdrop remains strong, so we doubt that any disappointment will have a long-lasting impact on CAD.

In other words, we doubt markets will engage in any material dovish repricing of rate expectations after today's numbers, which currently embed a 50bp rate hike by the BoC next week. We expect USD/CAD to slip back to 1.2500 into the 13 April BoC meeting.

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