

## FX Daily: Euro's attractiveness on the rise

The big drop in the dollar yesterday was, in our view, a re-linking between FX and short-term rate differentials. In this sense, markets are finding the euro quite attractive given it can offer not only an ongoing domestic tightening cycle, but also still room to speculate on a hawkish surprise at the coming meetings. Today, US GDP may come in below consensus



### ➔ USD: Earnings versus banks and Fed expectations

In [yesterday's FX Daily note](#), we discussed how the rally in the dollar in the first part of the week appeared unlikely to be sustainable. Indeed, we then observed a reconnection between FX and short-term rates in yesterday's price action. The recent dovish repricing in Fed rate expectations eventually caught up with the dollar, which sold off across the board yesterday despite global equities remaining under some pressure on lingering concerns over regional banks in the US and weak earnings in Europe.

Positive news has come from the tech sector in the US, where earnings have surprised on the upside, and this has offered some floor to US equities. While it's true that there was a large gap in terms of short-term rate differentials to be covered by the dollar against the euro and other European currencies, relative equity dynamics have remained more relevant from a statistical

standpoint, and a better performance in US stock markets compared to European ones today could help the dollar at least stabilise.

Data-wise, we'll see the release of first-quarter growth figures in the US. Our economics team expects a below-consensus 1.5% quarter-on-quarter annualised print (consensus is 1.9%). Consumer spending should be strong in line with robust retail sales in January which were boosted by unseasonably warm weather. However, weaker net trade and inventory performance should offset that story. Like any Thursday, some focus will also be on initial jobless claims, which we expect to come in at 250k, in line with consensus.

If some positive news on the US earnings side can offset the impact of US regional bank concerns on the dollar today, our expectations for a sub-consensus GDP reading suggest the balance of risks is still slightly tilted to the downside today.

*Francesco Pesole*

## ➔ EUR: Market's favourite

The big rally in EUR/USD yesterday was a testament to how markets seem to favour the euro among other currencies in instances when the dollar falls on the back of Fed dovish repricing and US banking concerns. Our perception is that investors favour currencies that can offer both an ongoing domestic tightening cycle and still some room for a hawkish surprise at the coming meetings. In that sense, the euro is one of the very few currencies that can offer this combination at the moment, and we don't fail to see its attractiveness compared to peers.

Our eurozone economist [published his European Central Bank preview](#) yesterday, discussing our call for a 25bp rate hike at next week's meeting. However, he highlights how the chances of a 50bp move are non-negligible and we might revise our call after inflation data and the Bank's Lending Survey. Markets are currently pricing in 30bp of tightening, so there is still room for the euro's rate attractiveness to rise, and we cannot exclude that we'll find ourselves with a much stronger EUR/USD as key central bank meetings kick off next week.

Today, a stabilisation around 1.1050/1.1100 seems plausible, although a break above 1.1100 could trigger another substantial rally in the pair. On the data side, the eurozone's calendar only includes the economic confidence data for April, which is not very market-moving. Individual countries' CPI figures will start to be released tomorrow.

Elsewhere in Europe, the Riksbank hiked by 50bp, but the emergence of two dissenters on the Board and the signal that rates will peak after the next 25bp rate hike translated into a dovish surprise for markets. [As discussed in this note](#), it will be harder for Governor Erik Thedeen to prop up the krona from now on.

*Francesco Pesole*

## ⬆️ JPY: Don't rule out a hawkish tilt in the BoJ message

The Bank of Japan will announce monetary policy tomorrow, for the first time under new Governor Kazuo Ueda. In line with the consensus call, we expect no changes to the policy settings for interest rates and asset purchases. The release of the new outlook report and specifically inflation forecasts will drive a big part of the market reaction.

However, there is a possibility that the BoJ will tweak forward guidance, in particular, the very last part of the statement which reads, “interest rates to remain at their present or lower levels”. It could also possibly drop the “lower levels” bit, ultimately switching to a more flexible approach and laying the groundwork for a policy adjustment in the future.

With not much priced in in terms of policy shift this summer by the BoJ and given the dollar’s weak momentum seen yesterday, USD/JPY looks vulnerable ahead of tomorrow’s risk event in Japan. We still target 128 for the end of the second quarter.

*Francesco Pesole*

## CEE: Unexpected push from EUR/USD

The region received an unexpected positive push from EUR/USD yesterday and despite a slight deterioration in global market sentiment, conditions for CEE FX look quite good. Although energy prices are not playing as much of a role for the region as in the past, gas prices hit record low levels again yesterday. Overall, the CEE region may thus look for new gains in the second half of the week if the euro maintains its push towards stronger levels. We also see a positive picture at the local level where we have seen the first signs of a reversal in the negative trend of falling interest rate differentials after two weeks. Although core rates eventually erased their decline and the differential remained almost unchanged yesterday, we think this should be a local low and rates can support CEE FX again.

From this perspective, we think the Czech koruna and Polish zloty may be interesting in coming days. The koruna should start to return to stronger levels in our view as the Czech National Bank meeting approaches, and with a higher EUR/USD at least 23.30 EUR/CZK should not be a problem in the coming days. The Polish zloty continues its two-week rally and should continue its trajectory in the conditions we have described here. Given the region's underperformance over the past few months, we think there is still plenty of room for a rally, and the market can unwind the risk premium built up in the first quarter. A test of 4.580 EUR/PLN can be expected for today.

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