

FX Daily: Fed could throw dollar a lifeline

Market pricing suggests some dovish tweak in the Fed communication today, but we think Chair Powell will want to see hard evidence of a slowdown and will remain cautious for now. The dollar can rebound if we are right with our call for the median dot plot to be kept unchanged today. Still, macro sentiment stabilisation is needed to sustain a USD recovery



Should data fail to endorse US recessionary fears, the dollar could be left free to benefit from slower growth in the rest of the world

USD: Fed may defy dovish bets for now

The dollar enters FOMC day with a good deal of bearish momentum. Despite Treasury Secretary Scott Bessent's attempts to quell recessionary fears, high-frequency indicators have kept pointing down and still favour a rotation away from US assets. The latest Fund Manager Survey from Bank of America showed a record gyration from US to European equities and 69% of respondents believed US exceptionalism is over. One positive takeaway for the dollar is the radical increase in pessimistic views on global growth too. Should data fail to endorse US recessionary fears, the dollar could be left free to benefit from slower growth in the rest of the world.

For the near term, the best chance at a rebound for the greenback is probably today's FOMC announcement. As discussed in our [preview](#), the chances of a cut are none, but the recent repricing in the USD curve suggests some dovish tweaks to forward guidance are expected by the

market. We are not convinced. The Fed has an inflation and employment mandate, and neither of those has declined enough to warrant a dovish shift. Growing pessimism on growth and consumption still needs to face the hard data test, and if the US administration can stomach the equity correction, the Fed probably can too. Things should change in the coming months as the US slowdown (but not a recession, in our view) unfolds, and we expect two cuts in 2H25. However, the FOMC median dot plot may not be revised lower today, so still signals only one cut in 2025.

Markets will be sensitive to growth and inflation forecasts too, but if we are right with our dot plot call and Fed Chair Jay Powell retains a cautious tone on easing, the dollar should be able to rebound. Still, to have a sustained USD recovery, US macro sentiment must start to stabilise. Until that happens, DXY rebounds may be capped around 104.0.

Francesco Pesole

📉 EUR: Peak optimism still in the price

As widely expected, the German Bundestag [approved](#) the debt break constitutional change yesterday. There are few doubts that fiscal reform will also make it through the Upper House (Bundesrat) and ultimately be signed into law. The euro has fully priced in the success of the spending reform and appears close to peak market optimism on the fiscal boost. We must consider that Germany still doesn't have a government, and coalition talks may prove tricky. Incidentally, while the debt break reform unlocks long-term fiscal spending opportunities, structural woes (competitiveness, innovation) are still to be addressed.

Our view remains that the second quarter will bring a reality check for European optimism. With US tariffs likely to hit from the start of April, euro bullish momentum may well fade.

The other key theme for the euro remains the direction of Ukraine-Russia peace talks. Yesterday, Russian President Putin agreed to reduce the number of attacks on Ukraine in a phone call with Trump. However, Putin is still requiring a complete halt to US armaments to Ukraine, and refusing to agree to a 30-day truce for now. Also on this topic, the euro is pricing in a good deal of optimism. Should we see a truce finally being agreed, the extra support to the euro may not be substantial and probably quite conditional on the agreed terms.

As we are bullish on the dollar ahead of today's FOMC risk event, we renew our call for EUR/USD to fail a break above 1.100 and instead inch back below 1.090.

Francesco Pesole

📉 GBP: Not that strong in the crosses

GBP/USD broke the key 1.300 resistance yesterday on the back of USD weakness. But in the crosses, the pound is not showing particular strength, and EUR/GBP remains close to its January 2025 high of 0.846.

We don't expect tomorrow's Bank of England meeting to be a major event for sterling. As discussed [here](#), we expect a consensus hold with only two members voting for a cut.

The UK budget event later this month is the biggest risk event for the pound. GBP negative scenarios are predominant as Chancellor Rachel Reeves may either slash spending, raise taxes or risk unnerving the gilt market. We see upside risks to 0.85 in EUR/GBP near term.

Francesco Pesole

➔ CEE: Some progress in the Ukrainian deal is positive but a quick finish is not indicated

In Hungary, Economy Minister Marton Nagy spoke about measures to fight food inflation. He mentioned that prices are already falling in March for some items and even faster than the government expects. However, we believe that the signals are mixed for now and given the period when prices are collected by the statistical office, the impact on March inflation will be limited and will be seen mainly in April. On the other hand, it may be positive for markets not to raise high expectations and any decline in March food prices could potentially be a positive surprise.

The CNB blackout period begins today, but we might still see some headlines from the central bank. In an interview yesterday, new board member Jakub Seidler expressed a preference for pausing the rate-cutting cycle in March, marking the first such stance on the board. However, his caution mirrors that of Deputy Governor Eva Zamrazilova, citing an uncertain global outlook. This aligns with our forecast for next week's meeting, but more focus should be on the conditions required for another rate cut, potentially in May, when the new CNB forecast will also be released.

Within the CEE market, the HUF outperformed peers again yesterday in line with our expectations. At the same time, the approval of the fiscal package in Germany resulted in some decline in core rates and a slight improvement in the rate differential for CEE currencies. However, the main focus is still on negotiations between the US and Russia. Yesterday brought some small advancement closer to a peace deal, which should be positive for the CEE region, but also shows that we cannot expect rapid progress.

In Turkey this morning, bonds and FX are coming under pressure after a potential presidential candidate, the mayor of Istanbul, was arrested. Morning levels suggest the TRY fell 1.6% against the USD and jumped above 37.300 USD/TRY, the biggest one-day move in over a year. TRY is the most heavily positioned carry trade in the EM space at the moment in our view and a sharp move could potentially lead to further outflows. On the other hand, we should see local banks providing some FX support.

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