

## FX Daily: Fed fires up the soft landing story

Risk assets are bid and the dollar is softer as last night's FOMC meeting revealed a Fed firmly minded to cut rates even as growth forecasts were revised higher. This could be the start of an important new trend for the dollar, should US price data soften. Look out for key central bank meetings today. A positive risk environment should keep the dollar soft



The Fed's Jerome Powell at yesterday's news conference

### 📌 USD: Fed laser-focused on rate cuts

The dollar has dropped and risk assets have continued to rally after last night's FOMC meeting revealed a Fed committed to rate cuts. We discuss the meeting in detail [here](#). Our reading of dollar price action yesterday was a market positioned for just two Fed cuts in 2024. Hence the reiteration of three cuts saw the dollar slightly lower even though growth, inflation and back-year Fed Dot Plots were revised slightly higher. The dollar tried to recover, but then a dovish press conference dominated. We felt two key parts of Chair Powell's Q&A hit the dollar. The first was that many FOMC members felt there were 'seasonal problems' with the high January inflation print. This suggests that the Fed does not see these high early-year inflation numbers as part of a new trend. And secondly, Chair Powell answered 'no' to a question of whether strong employment data

would delay a Fed rate cut.

Financial markets have, therefore, reacted positively to a soft landing scenario, where the Fed seems biased to cut rates even though the economy is doing quite well. For the dollar, we think this could be the start of something important. As outlined in our [2024 FX Outlook published last November](#), we have felt 2Q24 would be the period when a meaningful dollar bear trend would start to develop in advance of the first Fed cut. Additionally, seasonal factors are less dollar-supportive from April onwards. It is a big if, but if the March US price data does start to edge lower - validating the Fed's scepticism over high early-year inflation - then we can start to see a dollar bear trend gain momentum over coming months.

We doubt US data will be a big market mover today and see DXY staying gently offered. Two further quick points here. USD/JPY was also helped lower by a NikkeiAsia report that the BoJ could hike again in October or even July. This should add to the strength of resistance at 152 in USD/JPY. And we are very interested in Banxico's rate meeting today. This will be the first cut in the cycle and we see a chance that they cite a strong currency as a factor in suppressing inflation and allowing rate cuts. This could prove a mild peso negative and, in the bigger picture, means USD/MXN stays in a 16.50-17.00 range rather than heads sub 16.00 when the Fed cuts this summer.

Chris Turner

## ➔ EUR: More focus in Switzerland and Norway today

EUR/USD has been lifted by the weaker dollar, though looks unlikely to outperform. Typically the bullish steepening of the US curve sees EUR/AUD come lower. This has been the case - although helped by some exceptionally strong Australian employment data [overnight](#). EUR/USD looks as though it can drift up to the 1.0980/1000 region as European equities also enjoy prospects of a lower trajectory for global policy rates.

Perhaps the main caution today to a higher EUR/USD is the Swiss National Bank (SNB) rate meeting at 0930CET. A sizeable minority are looking for a 25bp rate cut. This could raise speculation that the ECB might want to go early with a rate cut too. EUR/CHF has been rallying strongly this week - perhaps on the expectation of a cut today. While we do not see a cut today, we do think the SNB can protest about a strong real Swiss franc and perhaps even imply that it has been buying FX this quarter, having sold CHF120/130bn of FX last year through the four quarters.

Chris Turner

In Norway, Norges Bank announces monetary policy this morning. We think policymakers are unlikely to deliver any strong change in guidance to the dovish side given the soft performance in the krone and little urgency on the domestic front to ease policy. The focus will be on the monetary policy report that includes updated projections. We could see a modest revision lower in the rate path, but that should be accompanied by a reiteration that policy needs to remain tight for some time. Ultimately, the impact on NOK may be contained, and external drivers should return to driving the currency quickly.

Francesco Pesole

## 📈 GBP: Unchanged forward guidance can help the pound

As our UK economist, James Smith, discusses in his Bank of England (BoE) [preview](#), we do not expect the BoE to change its forward guidance today. In other words, it will not be briefing about the timing of the first rate cut even though inflation has been trending in the right direction. And assuming the MPC voting pattern remains the same as February, 2 (hike), 6 (unchanged), 1 (cut), GBP/USD should stay bid and perhaps push up to resistance in the 1.2850/2900 area. We doubt one of the votes for a hike shifting to an unchanged position has to hit the pound.

The above scenario suggests EUR/GBP could take another look at major support at 0.8500. However, we retain a view that this should be the medium-term base and that EUR/GBP will gently rise through the year once the BoE starts to elaborate on its easing plans over the coming months.

Chris Turner

## 📈 CEE: Weaker USD unlocks regional rally

The Czech National Bank cut rates by 50bps to 5.75% [yesterday](#), with two board members voting for a 75bps move. However, the press conference was hawkish given the conditions in the economy and inflation on target. So, for now, it appears that an acceleration in the pace of rate cutting is not on the table. However, we believe this discussion will remain lively for the next meeting. As per our expectations, EUR/CZK fell to 25.200. However, we believe that further economic data and especially another inflation print will reopen the 75bps rate cut discussion for the next meeting. However, our baseline expects another 50bps cut in May. Although in the short term, we see further room for a rally to 25.100 in EUR/CZK but, looking further ahead, we think it is too early for a sustained reversal and the pressure on the CZK will return later.

Elsewhere in the region, in Poland we will see more data from the economy including retail sales and construction. In Turkey, the central bank meets today. We expect the CBT will prefer to wait for the March inflation data before deciding on any rate move and should remain on hold this month, though a possibility that the policy response might be strengthened by an additional 250bp rate hike has also increased with recent developments.

Yesterday's Fed and higher EUR/USD are clearly good news for CEE FX and unlock the potential suggested by the higher market rates of the previous days. In addition to the CZK, we should also see gains for the PLN today, where EUR/PLN could fall back below 4.3000 thanks to support from a weaker USD.

Frantisek Taborsky

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