

## FX Daily: First war-driven hike in the books

The RBA is the first G10 central bank to deliver a rate hike on the back of rising energy prices, although AUD is struggling to find its shine after an equity-driven correction. The USD has started the week on the soft side, on tentative optimism about the Hormuz reopening, but we could see a more muted FX market today ahead of tomorrow's FOMC



Michele Bullock,  
Governor of the  
Reserve Bank of  
Australia

We have published our monthly FX update – [FX Talking: Same shock, new drill](#)

### ➔ USD: Soft start to the week

Risk sentiment has improved at the start of the week with oil prices edging lower, resulting in a sizeable correction in the dollar across the board. The driver appears to be some (very) tentative optimism about the Strait of Hormuz flows. A Pakistani vessel reportedly transited the Strait after sailing close to the Iranian coast on Sunday, prompting speculation that Tehran could allow some friendly countries' vessels safe passage.

At the same time, markets are still gauging whether President Trump can convince other NATO members and Asian countries (the latter heavily affected by Gulf supply disruptions) to help secure the Strait of Hormuz. The response has been lukewarm so far, and we doubt markets are placing high hopes just yet: progress on that would prompt more oil and USD losses.

We have [published a new set](#) of energy price scenarios and their implications for rates and EUR/USD. In our baseline, intensive combat ends within two weeks, but lower intensity strikes could continue for several months, delaying the reopening of the Strait of Hormuz, which would not return to full capacity before June. This means a \$91/b average for Brent in 2Q and \$85/b in 3Q, in our estimates. Despite the inflation bump, we still expect the Fed to cut rates twice in the second half of the year as the economic outlook deteriorates, keeping our medium-term bearish USD view intact, even if slightly revised.

There isn't much to watch outside of war and oil headlines today, and we could see some caution prevail ahead of tomorrow's FOMC announcement.

*Francesco Pesole*

## ➔ EUR: 1.150 may not hold

A key point of our new scenario analysis is that gas prices are likely to remain elevated only in a severe and prolonged conflict. Even in that case, a return above 100 EUR/MWh in TTF looks to be off the cards, and 2022 swings would still dwarf those caused by this Gulf conflict (here are [seven reasons why](#) we think that is the case).

This conviction call continues to form the backbone of our upbeat view on EUR/USD into year-end, as capped gas prices mean a smaller impact on the eurozone terms of trade and, by extension, the euro's medium-term fair value.

In the near term, downside risks persist, and EUR/USD recovery on Monday may have short legs unless some headlines on ceasefire talks or NATO coordination on securing Hormuz start to appear.

The sum of Fed and ECB meetings today returns a downside balance of risks for EUR/USD this week, in our view, and we could see the pair re-exploring sub-1.1450 before recovering, barring positive developments in the Gulf.

*Francesco Pesole*

## ➔ AUD: A bittersweet hike

The Reserve Bank of Australia delivered a back-to-back 25bp hike overnight, taking rates to 4.10% in a 5-4 split decision. The division in the board was read as a dovish signal initially by markets (that had priced in around 65% probability of a hike) and caused a correction in AUD/USD, with sell-the-fact kind of price action also playing a role in our view.

AUD rebounded during Governor Michele Bullock's press conference, where she clarified the Board's debate was on the timing of a rate hike (March vs May) rather than on whether to tighten policy, and reiterated some alarmism on inflation.

Still, we do see some signs of tiredness in the AUD bull market. The swap market remains

aggressively hawkish (47bp priced in by year-end), but AUD has lost a bit of beta to rate expectations and is looking more sensitive to risk sentiment. That mirrors stretched long positioning, which requires a flow of positive news to fuel short-term rallies.

We have just [updated](#) our AUD/USD forecasts, seeing 0.70 as a more likely target than 0.71 in the coming weeks. Beyond that, we remain bullish, thanks to AUD's good carry and economic fundamentals and our expectations of a USD decline. Our year-end target is now 0.74.

*Francesco Pesole*

## ➔ CEE: Comfort in waiting

Along with global markets, the CEE region saw some relief yesterday despite energy prices remaining elevated. Rates eased from Friday's highs and FX saw some relief as well. February secondary inflation figures in Poland and the Czech Republic confirmed a favourable starting point before the US-Iran conflict. However, the question is how long higher energy prices will remain.

For now, it seems that central banks in the CEE region view the shock as a supply-side problem and prefer to see it through. This only makes sense as long as the conflict is short-lived and we can only attribute a few tenths of a percentage point to headline inflation through higher fuel prices. For now, we see that we should stick with this scenario and possibly a limited second-round impact on inflation, assuming that FX remains relatively stable as we have seen so far. In such a scenario, central banks in the CEE region will be on hold, and outpricing rate cuts make sense. But for now, we do not see a case for rate hikes, which the market quickly priced in.

The starting point for this conflict is very different from 2022, when the Ukraine Russia war began. Back then, the economy wasn't fully reopened after Covid, households held excess savings from government support, pent up demand was strong, and inflation was already climbing. In the current environment, inflation is below target, FX is more stable, the current account has improved, and the domestic economy is far more predictable than during Covid. This gives central banks room to wait longer – which is our baseline for now.

*Frantisek Taborsky*

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