

FX Daily: Gear up for another rough week

The UBS acquisition of Credit Suisse over the weekend is not giving enough of a respite to market sentiment this morning, with stress now shifting to the AT1 bond market. Meanwhile, the Fed boosted its USD swap lines. We have the FOMC announcement, as well as other key central bank meetings in the G10 this week, but the focus will remain on banking turmoil



UBS has bought Credit Suisse in a Swiss government-backed deal

📈 USD: UBS-CS deal no boost for sentiment

The weekend brought two very important developments for global markets. The acquisition of Credit Suisse by UBS, orchestrated by Suisse authorities, was announced. While this surely offers a breather to global markets as a black swan scenario is ruled out, it came at a rather hefty cost for some categories of investors, which is ultimately showing its negative impact on markets this morning. The acquisition price was CHF 0.76 a share, well below CS's CHF 1.86 closing price on Friday, and around CHF 16bn worth of CS Additional Tier 1 capital bonds are being wiped out. Other lenders' AT1 bonds are coming under pressure this morning, bringing respective shares lower, on fear of contagion. In other words, black swan risks may be lower, but financial turmoil is not over.

This is one of the reasons why the Federal Reserve and five other central banks announced a coordinated action yesterday to provide extra liquidity to money markets by increasing the

frequency of its USD swap lines operations from weekly to daily. As noted by our rates colleagues [here](#), this appears to be a purely precautionary measure by the Fed, considering that there was no material evidence of outsized demand for dollars last week. There is currently \$470m being drawn through swap lines, which is modestly higher than \$390m a month ago, but nothing compared to the \$400bn seen at the peak of the pandemic shock.

One could speculate this is a step by the Fed to separate price stability and financial stability, having a secondary goal to go ahead with a 25bp rate hike this week. As discussed in our [preview](#), a quarter percent move remains our base-case scenario, even though volatility in the US and global financial sector make it a very close call. The Fed funds futures curve is pricing in only a 50% probability of a hike this week, raising the chances of a positive dollar reaction in our base-line scenario.

More broadly, we suspect that despite some respite in markets from the UBS-Credit Suisse news this morning, lingering stress in the financial sector and defensive positioning ahead of the FOMC event risk should offer support to the dollar. We could, ultimately, see a 25bp move as a sign of confidence in the market's solidity and along with some gradual easing in global banking turmoil, dollar losses might start to emerge towards the back of the week. In the rest of the G10, we continue to see the yen stay in demand for now.

Still, we have learned how news can change market conditions very rapidly in the current environment, so caution around clear directional views remains warranted.

Francesco Pesole

⬇️ EUR: More pressure into the FOMC possible

EUR/USD is trading in the 1.0650/1.0700 range this morning after absorbing the Credit Suisse acquisition news, as markets clearly remain very cautious about the health of the European banking sector. In line with our dollar view discussed above, we think the pair may face more pressure into the FOMC meeting but may find more strength in the second half of the week.

Incidentally, we'll see preliminary PMI readings for March on Friday, which have recently painted a rather encouraging picture for eurozone growth prospects and may endorse the recent decision by the European Central Bank to keep tightening despite financial turmoil.

There are three other G10 central bank meetings this week in Europe: the Bank of England (more in the GBP section below), the Swiss National Bank and Norges Bank. The SNB meeting appears very ill-timed: the recent rise in inflation, aggressive tightening by the ECB and the low frequency of SNB rate announcements (once a quarter) would all point to a 50bp hike, but the recent turbulence in the Swiss banking sector may argue against such a large move. Our economics team's call is still for a 50bp hike, but it's a very close call. Elsewhere, Norges Bank should hike by 25bp as previously announced, but the recent developments will likely reduce the willingness to sound hawkish on the future path of rate hikes.

Francesco Pesole

⬇️ GBP: Pound resilience in doubt

UK stock futures point to a weaker opening than other European markets as markets see some contagion risks for AT1 bondholders at some UK institutions. Still, the pound seems to be holding

up surprisingly better than other G10 peers this morning. We had previously deemed GBP resilience versus the euro during the banking turmoil as markets seeing the UK banking sector as not as vulnerable as the eurozone one. Given GBP is generally more sensitive to risk sentiment than the euro, and the UK banking sector is coming under scrutiny this morning, we see risks of a EUR/GBP rebound back above 0.8800 today.

On Thursday, the Bank of England will announce monetary policy and while we expect a 25bp rate hike, it's closer to a 50/50 call, as it is for other central banks meeting in the current highly volatile environment. Market implied probability of a hike is 57% at the time of writing, although a big GBP rally may be prevented by policymakers strongly signalling a pause.

Francesco Pesole

CEE: Following the global story

It is hard to see the CEE region taking the initiative and we expect the global story to be closely followed this [week](#) as well. Today, we will see industrial, labour market and PPI data in Poland. We expect another weak number for industry while still remaining in positive territory as PMI indicators have indicated for some time. Tomorrow, retail sales in Poland may be slightly weaker for February. Then on Thursday, we will see unemployment data in Poland which could show a one-tenth increase to 5.6%. We expect the Hungarian unemployment rate to come in at 4.1%. In the Czech Republic, Friday will also see the release of consumer confidence for March, which has seen a strong recovery since the start of the year.

We also have two interesting sovereign rating reviews in Romania and Poland on Friday. Fitch has held a negative outlook on Romania BBB- since April 2020 and we see more than a 50% chance that we could see a return to a stable outlook. Moody's holds a stable outlook on Poland A2 and we do not expect any changes this time. However, it will be interesting to follow the agency's view on recent developments in the government's relations with the European Commission, access to EU money and the FX mortgage saga.

In the FX space, global market sentiment will be key for the CEE region, led by the Fed decision and EUR/USD levels. However, as mentioned earlier, we remain positive on the CEE region, which should see a decent recovery if the global story calms down. Our favourites remain the Czech koruna and Hungarian forint, which lost most of their position last week. Both are also benefiting from record-low energy prices and hawkish central banks keeping a close eye on FX levels. However, Monday's opening indicates that the market will be looking for safe ground for a while yet and we may see more weakness in CEE in the meantime. However, unless the Fed surprises with a 50bp hike, higher EUR/USD levels and improved sentiment should be positive for the region. The key level for the Czech koruna remains 24.10 EUR/CZK and for the Hungarian forint 402 EUR/HUF, which should limit losses. The Polish zloty confirms decent resilience to global turbulence and should hold below 4.72 EUR/PLN.

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