

FX Daily: Hopping from tariffs to data

The dollar remains highly sensitive to both tariff-related news (Trump is planning auto parts relief measures) and US activity data. Today, major risks stem from JOLTS and consumer confidence reports. In Canada, PM Mark Carney has won the election, but may fall short of a parliamentary majority. CAD's modest negative reaction should be short-lived



The balance of risks remains tilted to the downside for the dollar

📌 USD: A few days of key data ahead

The dollar's underwhelming start of the week served as a reminder that even if the worst of the confidence crisis on the dollar's reserve value may be past us, markets remain very much minded to link the greenback's faith with US economic performance. A week full of data releases may offer multiple opportunities to re-enter dollar shorts after some positioning rebalancing last week.

The much larger drop in the Dallas Fed manufacturing index yesterday suggests a drop to around 45 from 49 looks more likely than the consensus 48 for the ISM manufacturing released on Thursday. Today, expect the dollar's data sensitivity to remain very elevated as April's Conference Board consumer confidence and March's JOLTS job openings data are published. The former was, in previous months, one of the most closely scrutinised pieces of data and regarded as the best

forward-looking indicator for the tariff impact on spending. Consumer confidence consensus estimates are rather sparse, centred at a drop from 93 to 88; our call is 86.

Markets may not, however, attach the same level of interest to the release as a couple of months ago, as the focus could now be shifting to hard data (GDP released tomorrow) and, in particular, jobs. Ultimately, it's labour market weakness that can trigger a swifter reaction by the Federal Reserve.

Accordingly, a larger-than-expected drop in job openings and/or a spike in layoffs reported by JOLTS today should have longer-lasting effects on the dollar. Layoff levels are expected to rise from 1.79m to around 1.82m in March. That would confirm a multi-year and multi-month upward trend, but fail to signal that tariffs had already caused some labour market distress.

On the tariff side, the US administration is expected to implement some car tariff relief measures today. Those shouldn't go as far as entirely exempting auto parts, which will still face the 25% tariff, but the rules should be modified to prevent paying double tariffs for the likes of steel and aluminium. The White House also announced that auto producers will be refunded up to 3.75% of the value of new cars in the first year.

The dollar has reversed some of its losses after auto-tariff related news, and as US equities found some late-session support. The greenback should continue to be tossed around by tariff developments (which have been USD-positive of late) and evidence of the damage already done to the US economy emerging from data. On balance, the risks are skewed to the downside for the dollar this week.

Francesco Pesole

EUR: Losing some shine

The euro has lost some momentum as the go-to European currency amid USD outflows. Since the start of the week, it has been outperformed by all other G10 currencies except for USD, CAD and NZD. There is a possibility that massive power outages in Spain and Portugal (now resolved) affected the euro on the crosses, although there are broader considerations to be made too.

The option market positioning suggests the euro is the most overbought currency at the moment. That is probably a more accurate indicator than CFTC figures, which focus more on speculative short-term flows and suggest the yen net-longs are much larger. This must be weighed against macro and rates evidence that isn't supportive for the euro. There is a risk that the increased focus on the tariff impact on the US and the boost in optimism from German fiscal stimulus may have disaccustomed markets with the narrative of soft eurozone activity. A quarter-on-quarter GDP print for the first quarter below the consensus 0.2% tomorrow could be a trigger for unwinding some euro longs, and today's economic confidence figures can also have some FX impact.

Incidentally, the European Central Bank has sounded rather dovish of late. US Treasury Secretary Scott Bessent suggested the ECB will keep cutting rates to weaken the euro. Even if that is not the primary goal, it would surely be a welcome side effect for tariff-hit eurozone exporters. After all, a stronger trade-weighted euro is disinflationary and allows the ECB to err on the dovish side.

EUR/USD has dropped back just below 1.140 at the time of writing this morning. We could see some stabilisation around these levels, or even some additional pressure on the pair before US

data comes into the equation later today. Ahead of that, we think risks are tilted to another leg higher and potentially re-testing 1.150 in EUR/USD, even if the euro may not shine in the crosses.

Francesco Pesole

➔ CAD: Carney projected to lead minority government

Canadian media projects that the Liberal party has won the general election, and Mark Carney has been confirmed as prime minister. The results have, however, been much narrower than implied by polls. Liberals are currently projected at 167 parliament seats, short of the 172 majority. That would mean that, as in the previous legislature, they will need to bring the New Democratic Party (7 projected seats) into a coalition government.

As we had anticipated, the Canadian dollar is not liking the news of a minority Liberal win, as markets had likely priced a majority government as the baseline scenario. A thin parliament lead is hardly positive news for a country's currency, but CAD losses have been quite limited in size. USD/CAD remains below 1.390 and is still primarily driven by US events and the USD leg.

In terms of longer-term implications, Carney has pledged to fight US President Donald Trump harshly on tariffs, and his closer ties with European countries could emerge as an obstacle in trade talks along the way. Ultimately, the crucial issue remains renegotiating the USMCA early. The Conservatives (projected at 145 seats) had more explicitly signalled their intention to do so. Carney might take his time, although his explicit intention remains to sit at the negotiating table and end the US-Canada tariff war.

We retain a broadly flat USD/CAD view for now, as the correlation between the two currencies has re-strengthened and observed volatility has meaningfully lagged those of other USD crosses. We expect most trading into the summer to happen within the 1.37-1.40 range, and we target 1.39 for the end of the second quarter.

Francesco Pesole

⬆️ CEE: NBH leaves rates unchanged, CNB still unsure

Today, we will see the first central bank meeting within the CEE region since Trump's so-called "Liberation Day". We [expect](#) the National Bank of Hungary to leave rates unchanged at 6.50%, in line with expectations. While inflation fell more than the market expected in March (in line with the NBH's forecast) and the economy surprised on the downside, we think it is too early for forward guidance to change, given the resurgence of inflation in the second half of the year in our forecast.

Today's meeting comes without a new forecast, but we are likely to see a discussion of the impact of US tariffs on the Hungarian economy. In previous weeks, the NBH has already indicated that this should land in the range of 0.5-0.6ppt to GDP growth; the impact of new government measures on the inflation outlook will also be addressed. We expect the possibility of a rate hike to disappear from today's discussion, but the central bank will continue to push against the possibility of a rate cut.

Tomorrow, the Czech National Bank's blackout period begins, and today we will probably see the main part of the board's statements. Yesterday, Governor Ales Michl said in an interview that the next rate cut will be very cautious. The CNB has a conference scheduled today, and both the

Governor and two other board members are expected to speak this morning. We will likely hear a hawkish and cautious tone again, and perhaps some indication of what next week's decision could bring. We expect a 25bp rate cut as a baseline, but clearly, the central bank does not hold a particularly clear view in the current situation versus very dovish market pricing.

Yesterday, the market followed our slightly bullish guidance in the CEE region, with the Hungarian forint leading gains. However, local markets were rather quiet and global sentiment, especially in Europe, still plays a major role here. While our bullish view on the Czech koruna is clear given our hawkish view on the CNB, HUF presents something of a puzzle.

In recent days, we've seen an impressive rally in rates and FX together. The rates rally is more understandable given the dovish shift in the Hungarian story, whereas FX is mainly driven by global sentiment, in our view. Still, the result is a significantly narrower rate differential. We see HUF gains as more temporary at the moment, although today's NBH meeting may support EUR/HUF moving lower once again.

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