FX Daily: Is gold telling us something about the dollar?

FX markets are reasonably quiet ahead of public holidays and tomorrow's March US jobs report. Despite another sharp drop in US short-dated yields yesterday, the dollar actually rallied – suggesting investors remain nervous about the risk environment. Gold above $2000/oz may be telling us something as well. Look out for speakers in the US and Poland today

USD: What does gold above $2,000/oz mean?

Catching some attention has been the move in gold above US$2,000/oz. Normally, gold is seen as the flip side of the dollar trend and of course a key hedge against inflation. True, the dollar has lost around 3.5% from its distressed peaks in early March, but US inflation expectations have not picked up. In other words, there does not yet seem to be much weight to the narrative that a US banking crisis is going to undermine the Fed's battle against high and ingrained inflation. And certainly gold – as a non-interest bearing asset – is doing well compared to the near 5% rates available in overnight dollar deposits.

What also may be at work in favour of gold are FX reserve management trends. The increasingly bipolar geopolitical world – exacerbated by the war in Ukraine – means that BRICS+ central banks will be keeping a greater share of their international reserves in gold. This is a structural positive for gold and a structural negative for the dollar, one to add to the cyclical negative of what should be a Fed easing cycle later this year.

Back to the short term. Another big drop in short-dated US yields yesterday did not carry the dollar to a new low. Either short dollar positioning is too heavy or – as we like to think – investors feel it is too early to default to a 'buy risk, sell dollars' mentality given what could be further skeletons in the banking closet. Any sharp rise in initial jobless claims could slightly soften the dollar today, plus we will be watching for comments from Fed's James Bullard at 16CET. Does the Fed need to hike one last time in May? DXY to hover around 102.00 into tomorrow's US March jobs report.

Chris Turner

EUR: The first run at 1.10 fails for EUR/USD

EUR/USD reversed quite sharply from a high of 1.0970 yesterday. This was despite the US services ISM falling sharply and an 11bp drop in short-dated US yields. Indeed the two-year differential between EUR and USD swap rates is moving back toward the narrowest levels seen in early March. Price action yesterday tentatively confirms our thinking for EUR/USD over this next quarter. Despite the building macro negatives for the dollar, we suspect a challenging risk environment can keep EUR/USD bouncing around in a 1.05-1.10 range. As above, EUR/USD probably hovers around the 1.0900 area today.

Elsewhere, we see that EUR/CHF is drifting a little lower. Switzerland today releases FX reserve data for March. These fell CHF15bn in February suggesting that the Swiss National Bank (SNB) could have been selling FX to keep EUR/CHF below 1.00, in line with monetary goals. Given the huge volatility in asset prices over the last month, it will be very hard to read from the March reserve data what is intervention or what is the re-valuation effect. We suspect the SNB will want to keep EUR/CHF quite stable, and given the possible de-leveraging of balance sheets following the UBS-Credit Suisse deal, the SNB might end up having to be a buyer of FX reserves to hold EUR/CHF above 0.98.

Chris Turner

CEE: NBP unlikely to support zloty

As expected, yesterday's meeting of the National Bank of Poland (NBP) did not bring any change. Rates remained unchanged and the statement did not offer much news. The Monetary Policy Council (MPC) seems satisfied with the expected pace of disinflation. Apparently, the MPC judges that monetary policy has done the bulk of the work in cooling demand and that the pace of disinflation will depend primarily on supply-side factors, such as energy commodity prices and global supply chains. March CPI data in the country confirmed the turning point in CPI, but the pace of CPI decline is slow for now, and core inflation rose again. Governor Adam Glapinski will hold a press conference today at 3pm local time. The main focus will be his comments on a possible rate cut this year, which he mentioned previously.

Elsewhere in the region, we have several pieces of macro data from Romania, Hungary and the Czech Republic on the calendar today. The most interesting will probably be the Czech industrial data. First, the Czech economy is showing the weakest performance in the region. And second, the industrial data also includes wage numbers, which are now the main risk for the central bank. In addition, yesterday's news from the automotive sector suggests that wage growth may surpass 10%, which the Czech National Bank previously mentioned as a pain threshold for a possible additional rate hike at the May meeting.

In the FX market, EUR/HUF and EUR/CZK should continue to slide lower against the euro. However, deteriorating global market sentiment may slow their path, but the interest rate differential and EUR/USD still point to stronger levels. For now, we see a gravity point of 375 EUR/HUF and 23.40 EUR/CZK. The Polish zloty will be watching the press conference today, which is unlikely to bring positive momentum for FX. We expect the zloty to remain in its long-term range of 4.67-4.69 EUR/PLN.

Frantisek Taborsky

MXN: AMLO's 'new nationalisation' shouldn't be a peso negative

Now that we have all concluded that the Mexican peso is justified as being one of the best currencies in the world, the peso is selling off. Driving this correction looks to be a corporate finance deal announced this week that the Mexican government is buying 75% of the Mexican gas and wind facilities from Spain's Iberdola in a deal worth nearly US$6bn. Mexican President AMLO describes this as a 'new nationalisation' – although that term may not be as scary for investors as it sounds. It seems this move is consistent with Mexico's policy of securing strategic reserves in the resource sector – e.g. recent moves to secure lithium deposits for the nation.

We do not read the deal as negative for Mexico's potential to attract nearshoring FDI inflows and suspect that there will be very good demand for the peso should USD/MXN correct to the 18.50-19.00 region. We see the potential for USD/MXN to trade to 17.50 and even 17.00 later this year.

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