

FX Daily: 'Liberation' week for the dollar?

The dollar has traded on the soft side ahead of Wednesday's 'liberation day', when universal tariffs are due to be announced by the US. We think some stabilisation in the data is needed for a sustainable USD recovery, but European currencies still seem to be pricing in too many positives, and we have a positive bias on the dollar this week



USD: Waiting to be lifted by tariffs

The US is due to announce a new historic round of tariffs on trading partners on Wednesday, which President Trump has now famously dubbed "liberation day." Our economics team answers 10 tariff-related questions in this [week's preview](#).

What the FX market is indicating through spot, options, and positioning is a greater focus on the domestic implications for the US rather than on the countries being targeted with tariffs. There may also be a lack of trust in Trump's ability to keep tariffs in place for very long, given the inflation and activity risks. Our view is a bit more pessimistic from a sentiment perspective. While excessive stock market instability and/or domestic economic shock could soften the protectionist threat, if Trump's goal is indeed to collect revenue to fund budget spending, this round of tariffs looks more likely to be a structural, long-lasting manoeuvre rather than an on-and-off exercise like with Canada and Mexico.

We see some upside potential for the dollar this week as markets may have turned a bit too sanguine on the tariff view, and Trump has suggested over the weekend that he will impose tariffs on all countries. We think the risks are skewed towards a stronger dollar and yen and weaker European currencies alongside the Australian and New Zealand dollars.

US data will also be firmly in focus this week. Given the great sensitivity of the greenback to macro figures of late, any USD-positive tariff news can still be offset by soft data. The main releases of the week are JOLTS openings and ISM manufacturing tomorrow, ADP payrolls on Wednesday, ISM services on Thursday, and payrolls on Friday. We expect further softening in the manufacturing and jobs story, although not at an alarming rate. Our economists estimate 125k for payrolls (consensus 138k), which should, in our view, prevent any big unwinding of potential tariff-linked USD gains.

We could start seeing some support for the greenback today as defensive positions are built into Wednesday's tariff event. We think some support around 104 is more likely than another leg lower in DXY.

Francesco Pesole

📉 EUR: A bit expensive into tariff event

EUR/USD at 1.084 days before the US is expected to announce harsh tariffs on the EU is a testament to the FX market's hyper forward-looking tendency. The drivers of the pair's rally have been a re-rating of EU growth expectations based on fiscal spending, and pessimism on US activity. Neither of those factors has been endorsed by hard data just yet, and we remain reluctant to chase EUR/USD higher into the tariff announcement. Our models suggest EUR/USD continues to trade around 0.5% above its short-term fair value, and at -155bp, the 2-year swap rate gap remains too wide to justify 1.09-1.10.

It's clear that for a sustainable decline in EUR/USD, the dollar needs domestic support through data stabilisation, but the euro equally seems to be embedding too much optimism, and our preference remains for a weakening in the pair in the coming weeks. Should the US opt for high tariffs on all EU products this week, EUR/USD could be driven back towards the 1.070 support. We'll watch EUR/JPY as another key gauge of tariff risk.

On the data side, Germany releases CPI figures for March today. ING's call is for a slowdown from 2.3% to 2.2%, in line with consensus. The same exact numbers are expected for eurozone-wide flash CPI tomorrow.

Francesco Pesole

📉 AUD: RBA hold amid tariff noise

The Reserve Bank of Australia announces rates at 0430 BST tomorrow and we expect a hold, in line with consensus and market pricing (less than 10% implied probability of a cut). February inflation came in cooler than expected, but a trimmed mean CPI at 2.7% remains too hot to deliver back-to-back cuts.

Remember, the February cut was followed by an inflation rebound that prompted a hawkish re-adjustment of the policy tone by the RBA. It is likely Governor Michele Bullock wants to avoid a repeat of that and will require at least another encouraging inflation print before easing policy

again. Expect a cautious message today, with plenty of focus on the uncertainty generated by tariffs.

AUD and NZD have been the big losers in the G10 in the second half of March as pressure from Chinese yuan proxy trades intensified. We don't see much respite in sight given our relatively pessimistic view on the US trade policy to be rolled out in April. We are still targeting a move to 0.620 in AUD/USD before we can think about calling for the bottom.

Francesco Pesole

CEE: Too much negativity priced in

This week should be busy as we move into April. Today in Poland, March inflation will be released, which is likely to show a tick up from 4.9% to 5.0% year-on-year, reaching this year's peak. Core inflation increased slightly on the back of a hike in excise duties on cigarettes. Annual growth in food prices was also slightly higher than in February. At the same time, household energy prices were little changed vs. the previous month, while fuel prices declined.

Tomorrow, we will see the final 4Q24 GDP numbers in the Czech Republic, which may bring little change in the breakdown. Also, in the CEE region, PMIs for March will be released, which should show some improvement, in our view. On Wednesday, the National Bank of Poland is likely to leave rates unchanged at 5.75%, but it is not impossible that someone from the council could file a motion to cut rates since the numbers have surprised to the downside. However, approval is unlikely at the moment, given that a majority of council members remain hawkish. On Thursday, Turkey will release March inflation data, which we estimate fell from 39.1% to 38.0% YoY, below market expectations. On Friday, in the Czech Republic, March inflation will be published, which we forecast to remain unchanged at 2.7% YoY, above market expectations. The Czech National Bank will also publish minutes on this day, revealing a discussion of the pause and inflation risks.

CEE currencies have once again got caught in the clash between hawkish central banks, supporting stronger FX and negative global risks, and undermining currencies in the region. Rate differentials tightened across the board in the second half of last week, implying stronger FX; however, only Poland's zloty followed, while Hungary's forint weakened to its weakest levels since early March, and the Czech koruna remains little changed. Given the noise around tariffs last week and this week, global developments in the coming days will be the main driver. However, unless tariff headlines surprise in a significantly negative way, we prefer to stay on the bullish side this week for CEE currencies, where we see more room for surprises, given that a large degree of negativity is priced in at the moment while the local story supports FX.

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