

## FX Daily: Limited follow-through from Iranian attack

FX markets have seen very limited follow-through from the weekend's direct Iranian attack on Israel. The assumption, seemingly, is that the combination of limited loss of life in Israel and the urge for restraint from Western allies mean that the Israeli government will not immediately seek escalation. The dollar does well under most scenarios



### USD: Retail sales could be a weak link for the dollar

We are a little surprised that FX markets have not shown some follow-through to the weekend news. Friday afternoon had started to see the Japanese yen and Swiss franc fare a little better on news that Iran could stage a direct attack on Israel within days. At the same time, Brent crude traded to \$92/bl, and US two-year Treasury yields caught a bid. All typical risk-off, flight-to-quality trades. In the end, Iran's much-anticipated attack did materialise. The direct attack was at the more severe end of possible responses (the alternative for Iran would have been to use regional proxies), yet the damage to Israel - especially to civilians - seems to have been minimal. With Western allies urging restraint, the market is taking the position that the Netanyahu government will avoid the more aggressive and escalatory responses of a direct attack on Iranian military or

nuclear facilities.

Yet it looks too early to conclude that Middle East tension has found some kind of new equilibrium, and we suspect implied FX volatility will stay better bid for some time. The episode also serves as a reminder that the dollar is the best safe-haven currency right now—offering liquidity, high yields, and protection from US energy independence.

Returning to the global macro story, this week is a relatively light one for US data. The highlight of the week will be today's US March retail sales figures. Given that this data is presented in nominal terms, [inflation will be driving part of the gains](#). And after last week's high US inflation data it is doubtful that any kind of weakness in retail sales data today can substantially move the needle on expectations for the Fed this year. Here the market seems comfortable pricing just under two cuts for the Fed in 2024. On that subject, we will hear from many Fed officials this week, and on Wednesday, the Fed releases the Beige Book ahead of the May 1st FOMC meeting.

In all then there seems little reason for the dollar to hand back recent gains. DXY may be due some consolidation around 106 after some powerful gains last week - but the direction of travel looks to be 107.

Chris Turner

## ⬇️ EUR: We are going to be hearing a lot about 'divergence'

The term 'divergence' is going to be widely used this quarter. EUR/USD dropped quite sharply on Friday when two ECB doves said the ECB could diverge from Fed policy this year. And we mentioned last week that other central banks, like the Bank of Canada and Sweden's Riksbank, could cut rates ahead of the Fed. EUR/USD is now taking the strain of this divergence and the less risk-friendly environment caused by events in the Middle East is allowing EUR/USD to play catch-up with the very wide EUR:USD swap rate differentials.

In terms of the week ahead, we have some eurozone industrial production data and some ZEW investor confidence data. There is also a plethora of ECB speakers this week, including President Christine Lagarde, who will be speaking in Washington on Wednesday as part of the spring IMF meetings. Presumably, she will stick to the script that a June ECB rate cut is possible and that trans-Atlantic monetary policy can occasionally diverge: expect bearish headlines for EUR/USD.

After a big drop last week, we suspect EUR/USD rallies should now prove relatively shallow. We see a scenario where 1.0700/0720 caps any bounces before EUR/USD works its way closer to 1.05.

Chris Turner

## ➡️ GBP: Important week for UK data

As our UK economist, James Smith discusses in our [week ahead](#), this will be an important week for UK data and what it means for the Bank of England's (BoE) 2024 easing cycle. Tomorrow sees the release of February wage data and Wednesday the March services data. James is a little above consensus with his forecast for the services CPI, which, should his forecast materialise, prove marginally sterling positive this week. Given that market pricing for a June BoE rate cut is just 31%, conversely, any downside surprise on wages or services data could hit sterling quite hard.

EUR/GBP remains well contained in the middle of a 0.85-0.86 range. GBP/USD now looks quite vulnerable, with next downside targets in the 1.2365/75 area.

Chris Turner

## ➔ Commodity FX: Metals go bid on fresh LME sanctions

Nickel, aluminium and copper have gone bid this morning after the London Metal Exchange (LME) announced that no Russian metal produced from April 13th would be eligible for delivery to LME warehouses. ING's Commodity Strategist, Ewa Manthey, discusses the topic in detail [here](#). The commodity currencies took somewhat of a battering last week on the higher-for-longer US interest rate story. Today's jump in metals could offer some solace to the currencies of Australia, Canada and Chile.

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