

FX Daily: Looking for a new steady state for the dollar

Having sold off on Friday on news that the Strait of Hormuz is 'completely open', the dollar has come back a little bid on more tough talk between the US and Iran, plus the US Navy's seizure of an Iranian cargo ship. Investors seem happy to focus on a resolution to this crisis, but we think it is too soon to expect the resumption of the broad dollar bear trend



We're not in the camp looking for an immediate return of the benign dollar decline that characterised the start of the year

USD: Searching for a new steady state

Friday's headline from Iranian authorities that the Strait of Hormuz was 'fully open' gave us a vision of where the dollar could be trading were this crisis over. That equated to around the 97.50/98.00 area in DXY and just over 1.18 in EUR/USD. In our April release of [FX Talking](#), we expect the dollar to stray not too far from those levels for the remainder of the quarter.

In terms of the immediate focus, the question is whether investors will receive further positive news on renewed peace talks in Pakistan, or whether both sides will talk tough and potentially act tougher ahead of tomorrow's deadline on the two-week ceasefire. Today's benchmark of any progress will probably be whether Iran sends any negotiators to peace talks, now that US

representatives are already on their way there. The mood music of markets is one of concern, but one that sees progress towards a resolution.

The stop-start nature of peace talks does focus attention on when energy flows can fully restart and whether high oil prices will start to seep into other areas of the economy. We note another good speech from the Federal Reserve's Christopher Waller, released on Friday ahead of the Fed's blackout period. The speech was entitled '[One Transitory Shock After Another](#)'. Recall that Waller voted for a cut in January, and the point he is making now is that the longer energy prices stay high, the greater the risk that this oil shock adds to the tariff shock and de-anchors inflation expectations. For him, the 5-10 year US inflation expectations derived through the 5Y5Y inflation swap look important. From a low point near 2.30% at the end of March, these are now trading at 2.41%. Any move to the 2.70/2.80% area, as seen in early 2022, could well call time on any hopes of Fed easing this year.

On the subject of the Fed and looking ahead this week, tomorrow is probably the biggest day for markets. Beyond the expiring ceasefire, we also have Kevin Warsh's confirmation hearing at the Senate Banking Committee for the role of Fed Chair. He is expected to be dovish on rates, but hawkish on the size of the Fed's balance sheet. More on this tomorrow. Tuesday will also see US retail sales for March – expected to hold up despite high energy prices.

We are not in the camp looking for an immediate return of the benign dollar decline that characterised the start of the year, and suspect DXY can trade in ranges near the 98.00/98.50 area.

Chris Turner

📌 EUR: A week of survey evidence

We have a flurry of European Central Bank speakers in the early part of this week, ahead of the blackout period starting this Thursday. The main message continuing to come through is that the ECB is prepared to act (hike rates) should it be necessary, but that more time is needed. That means the market has priced out a 30 April hike and now attaches only roughly a 50% probability to a June hike. Our team think the ECB will indeed [hike in June](#).

Away from ECB speakers, the eurozone calendar is dominated by business and investor surveys. This starts with the German ZEW tomorrow, builds through the eurozone April PMIs on Thursday, and then sees the Ifo on Friday. March business surveys were not as bad as they could have been, and it will be interesting to see whether they deteriorated much this month.

We are a little cautious on risk at the moment and see a steady state for EUR/USD closer to the 1.17 area.

Chris Turner

📌 GBP: Focus on PM Starmer

Sterling has been performing reasonably well despite the market removing a lot of the expected Bank of England tightening this year. The market still prices one 25bp hike this year, while our team sees unchanged rates. That hike may not be priced out until oil prices drop, however.

There is also the small matter of politics in the UK. Prime Minister Keir Starmer will today make a statement in parliament to potentially correct the record on the approval process for the former

UK ambassador to the US, Peter Mandelson. This will be a tough session for PM Starmer and one which will extend into tomorrow, when the top civil servant involved in the approval process also appears at a parliamentary hearing.

GBP/USD could well hand back a big chunk of recent gains this week, with a first target being around the 1.3380/3400 area.

Chris Turner

📉 CEE: Friday's gains face a test, yet market resilience is increasing

The second half of the month is traditionally quieter in the CEE region, while global headlines point to another busy week with the US-Iran conflict re-escalating.

Today in the Czech Republic, PPI for March will be published, which is unlikely to attract the market's attention. Tomorrow in Poland, labour market figures including wages and industrial production for March will be published. On Wednesday, we expect the Central Bank of Turkey to leave rates unchanged at 37.00%, in line with surveys. However, market pricing shows some expectations of rate hikes, reflecting pressure on higher inflation stemming from both the domestic environment and, in particular, higher global energy prices.

In Hungary, we will also monitor post-election developments and the formation of a new government this week. The final election results on Sunday showed additional mandates for the winning Tisza party (141 out of 199), further boosting the current majority in parliament.

After the re-escalation of the US-Iran conflict over the weekend, the market can be expected to open again in a risk-off mood after a strong rally in recent days. On Friday, we saw rates rally across the region, which will be tested today.

However, it's clear that the market is growing increasingly resistant to negative headlines coming from the Middle East – and we therefore expect only a partial correction of Friday's gains in rates and FX markets today. Hungarian assets, in particular, should remain covered by positive headlines after the elections with the prospect of an early unlocking of EU funds. In turn, we expect that any correction will be immediately welcomed by the market as an opportunity for new longs. We see EUR/HUF further heading below 360 in the coming days or weeks if the US-Iran conflict escalates further.

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