FX Daily: Lots of noise, little trend

After public holidays in many parts of the world, FX markets return to a very busy week of monetary policy meetings and key data. Overnight the RBA surprised with a 25bp hike – after only pausing for one month. For today, the main focus will be on US JOLTS job opening data and, in the eurozone, the ECB bank lending survey and April CPI. Expect more volatility

USD: Lots of noise, little trend

One measure of the trade-weighted dollar, the DXY, has been roughly unchanged over the last month. This is despite First Republic Bank falling into the hands of the Federal Deposit Insurance Corporation (and its subsequent purchase by JPMorgan) and plenty of market-moving data. Instead, the period has been characterised by some independent trends outside of the dollar – such as the strong euro and weak yen which has seen EUR/JPY soar to the strongest levels since 2008.

Whether a new dollar trend emerges this week will largely depend on a jam-packed calendar of US events, including Wednesday's Federal Open Market Committee meeting and Friday's April jobs report. In our FOMC preview, we felt that Fed Chair Jerome Powell may not deliver enough to feed dollar bears and that the dollar could end up modestly firmer. Markets will also be taking notice of events in Australia last night, where the Reserve Bank of Australia's (RBA's) April pause only endured one month. And there are many serious US bankers keen to go on record saying that the Fed will not be able to cut rates this year – a clear challenge to the consensus view of a weaker dollar and the 50bp of Fed easing currently priced by the market.

For today, the US focus will be on the March US JOLTS job opening data. A sharp fall in the February figure saw the dollar sell-off on signs that US labour supply constraints could be easing. A softer-than-consensus figure today could see DXY soften by 0.5%, although investors will be reluctant to chase the dollar too much lower ahead of tomorrow's FOMC meeting. Elsewhere, USD/JPY has no doubt been taking out some stops in holiday-thinned markets and is challenging the March high of 137.90. We do not think these levels will hold for many months, but there is an outside chance of a brief move to 139.50/140.00 this week should the FOMC or NFP event risk surprise.

Chris Turner

EUR: ECB bank lending survey will help set the tone

EUR/USD is consolidating near the 1.10 area and waiting for fresh input from this week's US and eurozone calendars. Ahead of Thursday's ECB meeting, it seems markets are settling in to expect a 25bp hike. Expectations of such a hike could be cemented with today's 10CET release of the ECB's quarterly Bank Lending Survey. Tighter lending conditions should support the call for the compromise 25bp hike. Should there be a surprisingly little tightening of credit conditions, the euro could rally on the view that a 50bp hike could be on the table after all.

Today also sees April eurozone CPI inflation. Again any upside surprises here could help the euro. Barring any surprises it looks like EUR/USD will continue to trade at a 1.0950-1.1050 range into tomorrow night's FOMC meeting.

Chris Turner

GBP: Sterling wll take a back seat this week

It looks like sterling will take a back seat to events in the US and eurozone this week. The market has settled on pricing a 25bp Bank of England hike to 4.50% on 11 May – with which we agree. The market also prices the Bank Rate close to the 4.90% area by November, a view with which we disagree.

For the time being, however, expect EUR/GBP to trade around the 0.88 area and be buffeted by all the inputs into Thursday's ECB decision. It is also hard to see GBP/USD moving much away from 1.2500 in the short term.

Chris Turner

CEE: CNB will support koruna again

The Czech Republic's first quarter GDP data will be released today, the first number in the CEE region. The market expects a 0.1% quarter-on-quarter decline, the third consecutive quarter of economic contraction. Later, we will see PMI numbers across the region. We expect a slight deterioration of stability in industrial sentiment. And later today we will see the Czech Republic's state budget numbers for April, which could show more about the state of the public finances, which posted the worst March result on record.

Tomorrow, we have the Czech National Bank (CNB) meeting on the agenda. In line with the market, we expect rates to remain unchanged. However, we expect a very hawkish tone, and the risk is that there will be more votes for a rate hike than usual. Friday will see the release of industrial and retail sales data in Hungary and retail sales in the Czech Republic. In both cases, retail data in particular should confirm falling household demand and confirm the technical recession in both countries.

In the FX market, this week the global story and the EUR/USD move will be the main driver for the region. Global conditions remain positive for CEE, however the Fed and ECB meeting this week will be key. The Czech koruna should get a boost from the central bank which is the most hawkish in the CEE region at the moment. Moreover, financial markets still remain on the dovish side and market positioning is more balanced after the recent profit-taking, thus we see overall conditions for a new rally. In our view, it should not be a problem for the koruna to get back to the 23.20-30 EUR/CZK band and in case of a higher EUR/USD we could see even lower levels tested.

The Hungarian forint could also have an interesting week. Last week we heard some positive local headlines about the progress in the EU story and today the Hungarian prime minister will meet with the European Commission to discuss Hungary's access to EU money. So more positive news could help the Hungarian forint below 372 EUR/HUF.

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