FX Daily: Market-pleasing Trump is helping the dollar

Markets have welcomed the first US trade deal since Liberation Day, although the British-American agreement is hardly a game-changer for either of the two countries. The dollar is benefiting from Trump shifting to market-appeasing mode, but likely requires more positive trade developments, especially on China, to continue recovering

US equities have already drawn some support from US President Donald Trump’s more upbeat tone on upcoming negotiations with Beijing and yesterday's US-UK trade deal

USD: Plethora of Fed speakers to watch today

It’s been a good second half of the week for the dollar, mostly thanks to positive trade news and a hawkish Federal Reserve. The next big catalyst for the dollar will be the outcome of initial US-China trade talks, but US equities have already drawn some support from US President Donald Trump’s more upbeat tone on upcoming negotiations with Beijing and the US-UK trade deal announced yesterday. This is the first bilateral agreement since Trump's so-called 'Liberation Day', but hardly a breakthrough for US trade policy. Crucially, the 10% basic tariff remained in place despite agreement on other areas, and that may now be the baseline expectation for trade deals with other countries. Our view is that 10% universal tariffs will not be lifted anytime soon, and may stay for the whole duration of Trump’s term. Based on yesterday’s market reaction, risk assets can live with this scenario.

The US data calendar only includes the Federal budget balance for April, but there are a few Fed speakers to watch. Two dovish-leaning members, Michael Barr and Christopher Waller, both speak today. Lately, Waller has stressed that tariff-led inflation should be temporary, and it will be interesting to see whether more neutral members endorse this view. None of the hawks are speaking today, and the overall message may be slightly dovish-leaning.

This week, the Fed sounded anything but dovish. Still, there's a risk that Chair Jerome Powell's current stance is overly cautious given high uncertainty on tariffs – perhaps to reaffirm the Fed's independence in the face of Trump's easing calls. Single Fed speakers may show more openness to cutting rates and prevent the hawkish repricing in the USD OIS curve from going much further. Current pricing is for 68bp by year-end, with the first cut in September.

Anyway, US trade developments remain the single biggest driver for the dollar, and the consolidation of bullish USD momentum requires a constant flow of positive news on trade deals – especially with China. For this week, most of the positives from improved trade sentiment may already be factored into the dollar, which may fail to find more support today, especially if Fed speakers sound a bit more dovish than Powell.

Francesco Pesole

EUR: Starting to look towards 1.10?

For most of the past couple of weeks, EUR/USD buyers emerged vehemently in the 1.1250-1.1300 area. The break lower seen yesterday is telling. Markets have turned tentatively more optimistic on the dollar thanks to Trump's reinforced hopes of upcoming trade agreements and seemingly greater attention to market indications.

This is still a far cry from the "pragmatic" version of Trump that markets were pricing in as the baseline on Inauguration Day, but it's enough to prevent growth and debt-related bearish bets on the dollar from mounting. There are reasonable doubts about markets' readiness to rebuild strategic dollar positions just yet, and time might be needed to reinstall market confidence in the dollar as a safe-haven asset. At the same time, EUR/USD remains overvalued by 2% in the short term according to our estimates, and more indications that Trump has switched to a market-pleasing mode can force more trimming of the risk premium.

Today, the eurozone calendar doesn't offer much. We'll see whether EUR/USD starts to form a new support floor at 1.1200; a break lower would signal a marked shift in sentiment on the pair and potentially pave the way for larger corrections, with 1.100 being the next big support.

Francesco Pesole

GBP: Bullish mood can continue

The pound strengthened yesterday as the Bank of England sent some hawkish signals while cutting rates by 25bp. The announcement of the UK-US trade deal later in the day added some support to the pound, but that was short-lived. The deal had already been largely priced in, and the implications for the UK economy are not significant. That said, the UK has now signed two trade deals in quick succession (with India and the US), and that is keeping markets hopeful on trade talks with the EU – which would have much more meaningful implications for the UK, and can lend a hand to troubled British finances, as discussed here.

When it comes to the BoE, the hawkish surprises came both from the vote split and the details in the statement. There were four dissenters to the 25bp decision, two voting for a 50bp reduction and two for a hold. In the hawkish camp were Catherine Mann, a long-time hawk who had (very surprisingly) voted for a 50bp cut earlier this year, and most importantly, Huw Pill, the BoE's Chief Economist. That resounded more with markets than the two 50bp cut votes, as the statement also seemed to lean on the cautious side. The guidance is unchanged, with further easing steps still set to be "gradual and careful", and growth forecasts were not revised lower as some had expected. As discussed in our economist's BoE reaction note, we expect two more cuts this year, in August and November.

The proximity to the 19 May EU-UK summit can keep markets on the bearish side of EUR/GBP. Calmer risk sentiment and positioning imbalances (EUR is more overbought than GBP) should also keep the pair pressured. A test of the big 0.840 support (where 100-day and 200-day moving averages converge) is a tangible possibility in the coming weeks.

Francesco Pesole

CEE: Polish central bank signals pause in rate cuts in June

This morning brings April inflation data for Hungary, following releases for Poland and the Czech Republic in the last few days. We expect a sharp drop from 4.7% to 3.5%, well below market expectations, which should confirm the impact of government measures on food prices but also lower fuel prices. Later today, we will also see retail sales in the Czech Republic for March.

The National Bank of Poland Governor's press conference yesterday brought a strong hawkish tone compared to the previous April conference and market expectations. The NBP's statement on Wednesday suggested that the council wants to remain cautious before the next rate cut, as well as its intention to wait for the central bank's July forecast. This is in line with our economists' expectations, and we expect a pause in June before the NBP switches to a 25bp cut pace, with the terminal rate at 3.75% in our forecast.

PLN rallied after the NBP press conference yesterday, but the rates differential suggests more of a level around 4.260 EUR/PLN. We are likely to hear from more council members in the coming days, which will set the market's next direction.

The Czech Republic is back after the holidays, and yesterday's sell-off in core rates suggests some upside for CZK rates today, which should keep EUR/CZK below 25.000 despite a rather dovish Czech National Bank on Wednesday compared to market expectations.

EUR/RON closed unchanged for the first time since Tuesday yesterday despite some intra-day volatility. Forward implied yields also fell a bit, but we think it is too early to see any significant calming. Still, we have some events on the table in the coming days that will determine the next direction, and EUR/RON spot and forwards have upside risk from current levels in our view.

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