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FX

# FX Daily: More bond fuel for the dollar rally

The ongoing bond market sell-off is offering ideal conditions for dollar strengthening. Markets have likely raised the bar for jumping into new de-escalation trades, and we think risks remain on the upside for USD today. In the UK, inflation surprised to the downside, lowering the probability of a BoE hike. Nvidia publishes earnings after close today



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## 📈 USD: Bond sell-off keeps offering support

Higher real US yields are back to driving dollar strength. Yesterday, we sensed that market patience for any improvement in the Gulf situation was thin, and the latest headlines did not dent the bearish bond momentum. Our colleague Padhraic Garvey examines this rough period for Treasuries [here](#). He sees more overshoot risk for yields in the near term, and a risk that a de-escalation may still leave real yields comparatively higher.

It's worth reiterating that, unlike in 2025, this sell-off is being driven by inflation concerns rather than fiscal fears, making it unambiguously USD positive. When we [argued](#) in February that the dollar's decline was cyclical rather than structural, we constructed a USD safe haven gauge combining the dollar's correlation with US equities and with 10-year Treasury yields.

That measure now points to the strongest safe haven appeal for the dollar since late 2022, and the second-highest reading in our dataset back to 2005.

As a result, upside risks to USD remain dominant unless genuinely constructive news emerges from the Gulf. Reports yesterday that NATO is considering intervention in the Strait of Hormuz to support vessel passage failed to lift risk assets in any meaningful way. A break above 99.50 in DXY remains a realistic outcome even in the absence of renewed military escalation.

Brent is trading above \$110 this morning, with scope for additional volatility around today's EIA weekly release. The consensus looks for crude inventory drawdowns of 2.8m barrels. Last week's drawdowns were already sizeable at 4.3m, and including SPR releases implied a total inventory decline of 12.9m.

Another event to watch today is the release of April's FOMC minutes, which will shed more light on the reasoning for the three dissenters who preferred a less dovish message. Any hints that went as far as adding rate hikes to the discussion could underpin the recent hawkish repricing and add support for the dollar.

After the closing bell, attention will shift to Nvidia's first-quarter earnings, set for release later today.

*Francesco Pesole*

### 📉 EUR: Downside risks remain

We still see risks skewed to the downside for EUR/USD, as markets appear to have raised the bar for trading on positive Middle East headlines. The next support to watch is 1.1570. On 3 March, at the start of the conflict, EUR/USD moved below 1.160 for the first time and gapped lower after breaking the 1.1570 mark.

Positioning is now far more balanced, suggesting that the risk of abrupt technical sell-offs is more contained. However, the macro environment has clearly turned less supportive for the euro. The rise in USD rates is undermining risk sentiment and reversing the rate differential tightening that had provided a buffer for EUR/USD during the energy crisis. The two-year EUR:USD swap spread has widened back to around -100bp, from a peak of -65bp in early April.

*Francesco Pesole*

### 📉 GBP: Lower-than-expected inflation makes BoE hike a close call

Today's UK April inflation data has come in a tad lower than we'd expected at 2.8% YoY, which, like yesterday's jobs data, questions the need for aggressive rate hikes. Admittedly, the breakdown of the data isn't too surprising. Rising fuel bills were more than offset by a wave of

more tame administrative/regulatory price hikes at the start of the fiscal year, together with a temporary drag from the timing of Easter.

We now look for UK inflation to peak just shy of 4% later this year. A June rate hike looks pretty much 50:50, but it narrowly remains our call given ING's base case for energy prices. On that basis, we are less bullish on EUR/GBP in spite of the ongoing political turmoil.

*Francesco Pesole*

### 📉 CEE: Weighed down by negative sentiment

The risk-off global sentiment is clearly not in favour of CEE currencies, and as we discussed here on Monday, this is a reason for us to be bearish on FX here. CEE currencies have been trading very well since the start of the conflict, and even this week, despite some weakness, we have not seen a break from the usual ranges. For now, we will rather move towards the upper edges of EUR/PLN 4.230-260 and EUR/CZK 24.250-400. But that is still far from FX being a topic for central banks.

On the other hand, the risks are building on the downside with the rally of the US dollar in recent days. We will also only see the negative impact on the economy and current account in the numbers in the coming months.

The Hungarian forint, as usual, has been in its own universe since the April elections, but here too we see some influence from the global trends. The local story saw most of the expected headlines after the elections and investors may see some exhaustion here. We remain bullish on Hungary, but of course people will want to take some profit and FX is, in our view, the first candidate given the long positioning within HUF assets.

In addition, the National Bank of Hungary has indicated a dovish stance which will undermine FX carry somehow. EUR/HUF closed at 362 yesterday. It doesn't mean much for now, but if we were to go above 365, the level where the market started to price in NBH rate cuts, someone may start unwinding rate cut bets and FX weakness would start to be passed into the rates market as well.

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