

## FX Daily: More downside risk for the euro and yen

Policy divergence between the Fed and low-yielding central banks (ECB, BoJ) continues to argue in favour of USD strength. USD/JPY may soon touch 130, but FX intervention is not assured, while EUR/USD could test 1.0700 soon as the French election run-off draws closer and the situation in Ukraine remains highly volatile



### ↑ USD: Further room to strengthen

Hawkish expectations on Fed tightening have continued to offer a supportive narrative to the dollar, which has retained good momentum after the Easter break. Yesterday, FOMC arch-hawk James Bullard signalled openness to a 75bp hike, despite acknowledging that this is not his base case.

The yen is once again emerging as the worst-performing currency in the G10, and with USD/JPY now at 128.00, the perceived probability of FX intervention in Japan is set to rise. [As discussed here](#), no intervention at the 130.00 mark could mean that the line in the sand is set at 140.00. So far, more and more verbal intervention by Japan's politicians (this morning, the finance minister warned against the risk of a rapidly depreciating yen) seems to be having less and less impact on the currency. At the same time, the probability of a rate hike by the BoJ purely to reduce the Fed-

BoJ policy gap has been ruled out by BoJ Governor Haruhiko Kuroda. We expect USD/JPY to test 130.00 in the coming days.

Back to the US, this week's data calendar does not include market-moving releases, and most of the focus will be on Fed speakers in the last days before the FOMC blackout period starts on 23 April. Chair Jerome Powell will speak at an IMF conference on Thursday, while we'll hear from Charles Evans today and Mary Daly and Raphael Bostic tomorrow.

All in all, we continue to expect the dollar to find some support (especially against the low-yielders) this week. DXY should find more room to appreciate above 101.00.

## ⬇️ EUR: Downside risks persist

Last week's European Central Bank meeting clearly fell short of the market's hawkish expectations, and forced a re-pricing of tightening bets. A key takeaway for FX is that the Fed-ECB gap, which is a major determinant of EUR/USD moves, is set to remain wide for longer. We'll hear from President Christine Lagarde this week, but we doubt she will make any significant U-turn on the policy rhetoric. On the data side, PMIs will be in focus.

Along with the underlying unsupportive policy differential, EUR/USD will face other downside risks this week, as the second round of the French elections (24 April) draws nearer. Latest polls seem to suggest a relatively safe lead for President Emmanuel Macron over rival Marine Le Pen, but we suspect appetite for the EUR will remain low into this weekend's vote.

Incidentally, there is growing concern about developments in Ukraine after missiles hit the city of Lviv, which had been considered a relatively safe area – partly due to its proximity to the Polish border.

A combination of these factors continues to argue against a recovery in the euro, in our view, and EUR/USD may test 1.0700 in the coming days.

## ⬇️ GBP: Time for a decisive move below 1.30?

The only two releases to keep an eye on in the UK calendar this week are tomorrow's retail sales and PMIs, as well as speeches by Bank of England Governor Andrew Bailey and Catherine Mann on Thursday.

Cable is currently trading around 1.3000: breaks below this level have proven to be very short-lived in previous instances (March-April), but we think that a supported dollar and the lack of major drivers for sterling this week could support a more decisive depreciation in GBP/USD.

## ➡️ AUD: RBA minutes reiterate focus on wages

In the minutes of its April meeting released overnight, the Reserve Bank of Australia reinforced its message that wage growth remains a key determinant of further policy moves, and that signs of acceleration in labour costs and underlying CPI will likely bring forward the timing of rate hikes.

Markets are now betting heavily on a rate hike in June, as the May meeting will take place before the pivotal wage growth data for the first quarter are released. There hasn't been much speculation, for now, on whether the RBA might follow the likes of New Zealand, Canada and – most likely – the US in raising rates by 50bp, which arguably leaves some room for further hawkish

repricing of rate expectations in Australia.

For now, the Aussie dollar remains mostly tied to external factors, and in particular, to commodity swings and China-related sentiment. The latest GDP data out of China beat expectations and the central bank announced fresh measures to support businesses, but the uncertainty around the impact of strict lockdowns remains high, and may keep a lid on AUD appreciation in the near term.

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