FX Daily: New era of policy dissent?

Three FOMC members surprisingly protested the Bank's 'easing bias' yesterday, and there is a chance of seeing growing hawkish dissent in ECB and Bank of England meetings today (both should hold rates). The dollar faces more upside risks as oil prices surged to new wartime highs, but Japanese authorities may not be ready to intervene in USD/JPY just yet

Fed Chair Jerome Powell at a press conference on Wednesday, after announcing that the Fed has decided to leave interest rates unchanged

USD: Dissenters surprise

The Fed statement was largely in line with expectations yesterday (here is our FOMC review), highlighting risks to both sides of the mandate and avoiding any strong guidance. The surprise came with the vote split: 8-4, with Miran voting for a cut and three members (Hammack, Kashkari and Logan) voting against the "easing bias in the statement".

The slightly confusing aspect is that there is no explicit easing bias in the statement. Perhaps the reference was more to the March dot plot projections, or it could serve as a warning sign for incoming Fed Chair Kevin Warsh (confirmed by the Senate Banking Committee yesterday) that he'll have a hard time delivering on a more dovish stance. Jerome Powell said he'll remain in his governor's seat at least until the criminal investigation is "truly over". Likely another hindrance to any dovish plan by Kevin Warsh.

The FX reaction was contained after the FOMC, with the greenback holding on to daily gains fuelled by further oil price rises and risk sentiment jitters. US equities continued to outperform struggling European and RoW stocks, despite some mixed earnings results by big techs yesterday.

The dollar is back on the rise with oil hitting a new $126/bbl high after reports that Trump is getting briefed about new military options in Iran. Yesterday, the US officially rejected Iran's Hormuz reopening proposal, reaffirming that a nuclear deal is necessary to end the blockade.

All this is raising upside risks for USD, and the end of month-end flows could unlock further upside for the greenback. DXY has lagged the oil move, but any new jitters in equities could cause a return to the 100 mark – the prevailing level in early April, when oil was trading around $15 below current levels.

On the data side, 1Q GDP and PCE data are on the watchlist today. Consensus is for 2.3% annualised quarterly growth and we expect 2.7%. Government spending should rebound after the shutdown in late 2025, and tech-related investment should continue to offset stagnation in other parts of the economy. We expect a 3.2% core PCE print, in line with consensus.

USD/JPY has broken above the 160.0 level and is trading above the previous highs seen in April. We are now within the FX intervention zone, but Japanese authorities may be reluctant to act too promptly, given elevated FX volatility and speculative JPY shorts that are far less extreme than in 2024, when they last intervened. The effective line in the sand may be closer to 162, with an outside risk of 165.

Francesco Pesole

EUR: Higher bar for EUR rally

It's ECB day. We've published two previews: one from our macro team and one from us in FX and our rates colleagues. The latter outlines four scenarios, from the most dovish (pushing back against tightening expectations) to the most hawkish (a surprise hike). In our baseline, we expect a moderately hawkish hold by the ECB, signalling plenty of uncertainty and remaining non-committal on the rate path, while still implicitly leaving the door open to a hike this summer.

The recent rise in crude prices has increased the chances of a more hawkish tone from the ECB today, but rate expectations have moved accordingly. Market pricing for year-end is now the most hawkish since the start of the war, pricing in just over 80bp of tightening. This raises the bar for a positive EUR outcome today. For this curve profile to hold, we may need indications that part of the Governing Council was already prepared to hike today, with hawks perhaps choosing to follow the Fed's example and voice their dissent against the decision.

The eurozone will also publish some important data today before the ECB announcement. Headline CPI should rise to around 3.0% (April print), but the core might actually slow to 2.2%. Growth is expected to slow to a tepid 0.9% YoY, but that is not crucial information for the ECB at this stage.

With the latest deterioration in market sentiment about the Middle East conflict, we don't think the ECB will be hawkish enough to lift EUR/USD on its own. Unless oil starts turning lower today, risks remain towards a move to 1.160.

Francesco Pesole

GBP: Greater dovish risks than EUR

The Bank of England faced another round of hawkish repricing yesterday, with expectations for year-end now close to that of the ECB, around 80bp of tightening. We think this is excessive: the ECB's starting point is 150bp lower, and policymakers in Frankfurt have been more hawkish than their BoE counterparts.

Today's BoE rate announcement (preview here) could therefore prompt some dovish repricing in the curve and lift EUR/GBP as the ECB's tone could instead keep tightening expectations relatively firmer in the EUR curve. We expect an 8-1 vote split in favour of a hold, with Chief Economist Huw Pill voting for a hike. However, we don't expect the Bank to add fresh clues about policy direction. The outside chance on the hawkish side is that Greene and Mann also vote for a hike, and on the dovish side that Governor Bailey pushes back against aggressive pricing.

Politics remains the other central theme for sterling. Yesterday, comments by Labour Manchester mayor Andy Burnham hit both the gilt market and GBP. He is seen as a potential replacement for PM Keir Starmer, and widely considered a fiscal dove. Even yesterday, he reiterated that defence spending could be exempted from the fiscal rule, a very sensitive point for the bond market. We've previewed the UK May local elections here: EUR/GBP faces upside risks from potential Labour underperformance and growing concerns about government stability. We still expect a move above 0.870 in the near term.

Francesco Pesole

CEE: Global risk-off mood becomes too heavy for the region

Today, attention in the region will return to economic data. Hungary and the Czech Republic will release their first GDP figures for Q1, which could provide the first glimpse of this year's growth. In Hungary, we expect some recovery from 0.2% to 0.8% QoQ, while in the Czech Republic, some slowdown from 0.7% to 0.5% QoQ. However, the Q1 figures will tell us little about the impact of the US-Iran conflict due to some lag in the impact on the real economy.

In Poland, April inflation will be released, which, according to our estimates, fell slightly from 3.0% to 2.9% YoY, while core inflation remained unchanged at 2.7%. The stabilisation is primarily due to the government's steps to fight rising fuel prices introduced at the end of March. Still, annual growth in fuel prices is projected to be higher than in the previous month due to a low reference base.

Amid rising energy prices and continued risk-off sentiment, CEE is coming under some pressure. In addition, the stronger US dollar was a further negative factor yesterday following the Fed meeting. Therefore, it can be expected that the region will remain under pressure today and we will see some weakness again. Even yesterday's news from Hungary about the early unlocking of EU funds did not offset global factors and EUR/HUF returned to 366 after touching 364 after the NBH meeting on Tuesday. Our long-term view remains bullish on the forint, however, long positioning is clearly becoming too difficult. On the other hand, we expect the market to take any sell-off as an opportunity to re-enter the market. Therefore, we do not expect EUR/HUF to go significantly higher even in the case of a persistent risk-off sentiment.

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