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FX

## FX Daily: Oil and equity volatility taking dollar back up

The release of emergency oil stockpiles hasn't calmed the oil market, with overnight disruptions in Oman and Iraq taking Brent back to around \$100/b. Equity futures also point to losses today, potentially paving the way for a testing of 1.150 in EUR/USD. AUD is vulnerable to weakening risk sentiment, but RBA rate hike bets provide some support



The release of emergency oil stockpiles has done little to steady the market

### ↑ USD: Ideal environment for the dollar

The IEA's release of 400 million barrels of crude reserves and Trump's use of emergency powers to revamp Stable's offshore oil production both failed to keep oil prices under pressure yesterday. That's before Oman evacuated its export terminals, and two oil tankers were attacked in Iraqi waters, which prompted Brent to trade back around \$100/b (\$98 at the time of writing).

This latest leg higher in oil is giving broad-based support to USD, CAD and AUD, the three big winners so far in G10, thanks to their energy position. Today, with equity futures pointing to a 0.5-1% negative open in the US and Europe, we think USD is in a safer spot than CAD and AUD

- especially AUD - which have relied on some relative resilience in global stocks alongside the energy rally.

In US domestic news, [CPI was benign yesterday](#), but that doesn't matter much as rising gasoline prices now point to 3%+ headline inflation. 2-year USD swap rates have risen around 25bp since the start of the conflict, but one rate cut is still priced in by year-end.

Understanding how far the conflict and supply shocks will last remains the priority for markets. We discussed yesterday how emergency measures to ease oil supply disruptions may be sending a hidden negative signal to markets that world leaders see little room for quick de-escalation. The reaction in oil and equities yesterday might be mirroring that. It also seems that markets are growing more resistant to Trump headlines about the US being close to achieving all its military targets.

It's still a headline-to-headline environment in FX - but signals from equities and oil are arguing for more USD strength at the moment.

*Francesco Pesole*

### 📌 **EUR: No gas crisis like 2022, but 1.150 can be broken**

Our commodities team discusses [in this note](#) why this shouldn't be a repeat of 2022 for gas prices. The disruption to LNG flows from the Persian Gulf is sizeable, but it's expected to be temporary rather than the structural break Europe faced when Russian pipeline gas collapsed. Also, global gas markets are better supplied, a large pipeline of new LNG export capacity is coming online, and EU gas demand sits well below pre-war levels.

The broader backdrop is also much less hostile than it was in 2022. Europe has bolstered renewable capacity, diversified away from single-supplier dependencies, strengthened storage management and introduced joint gas purchasing - all of which help contain volatility. Market infrastructure is more flexible, and electricity prices should remain more anchored as a result.

That underpins our resistance to follow market pricing in calling for a rate hike by the ECB later this year. That said, the risks are [clearly shifting more hawkish](#) with the war and oil supply shocks extending, as now admitted by a few ECB speakers.

In the near term, that hawkish repricing doesn't matter for EUR/USD, though, which has lost its sensitivity to front-end rates as it often does in times of external shock. The pair remains a mirror of oil prices in intraday action, and the bearish momentum (equity weakness adding to it potentially) can prompt a testing of 1.150. A break lower means the next technical supports to watch would be August's 1.140 low.

*Francesco Pesole*

### ↓ **GBP: Markets look too hawkish on BoE**

EUR/GBP continues to show a negative correlation to oil prices, in our view, primarily on the back of the notion that the UK has had a bigger inflation problem and the Bank of England's policy is set to be affected by energy prices more deeply.

Our concern remains that markets have priced out BoE easing too aggressively. The two-year GBP swap rate has jumped 50bp since the Iran conflict started, with now no rate changes expected by year-end. Any positive surprises on the de-escalation front carries meaningful EUR/GBP upside risk, in our view.

Our valuation metrics also suggest a move below 0.860 would be rather stretched unless markets start to seriously price in a rate hike by the BoE.

*Francesco Pesole*

### ↑ **AUD: Heavy betting on RBA hike next week**

The Aussie dollar remains the big winner in G10. We discussed in the USD section above how equity instability remains a major correction risk for AUD, but we must also note that markets are turning rather aggressive in pricing another RBA hike on 17 March.

The implied probability of a 25bp increase next week is now 70% in the Cash Rate future market, and economic consensus also seems to be aligning with the hike call. That is offering more tailwind to AUD, with CME reporting a large surge of call option volume driven by aggressive speculative flows ahead of the RBA announcement.

In a scenario where oil prices remain high, but equities show more signs of relative resilience, 0.720 appears to be a very reasonable target for AUD/USD going into the RBA decision. We could then see a sell-the-fact correction given aggressive positioning and the RBA striking a cautious tone on further tightening, given high uncertainty.

*Francesco Pesole*

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