

FX Daily: OPEC+ output cut gives dollar a lifeline

We had called for EUR/USD to break 1.10 this week. This is still a possibility, but the surprise oil production cut announced by OPEC+ is raising inflation fears and – by extension – reducing Fed easing bets, ultimately offering the dollar support. This week, focus will be on US data: the ISM surveys today and Wednesday, and the payrolls on Friday



The OPEC+ move may have given the dollar a temporary lifeline

➔ USD: OPEC+ forces a rate cut rethink

Over the weekend, OPEC+ surprised with the announcement of a more than a one million barrel-a-day output cut, only a few days after delegates had signalled no intentions to change production limits ahead of the cartel's monitoring committee this week. Saudi Arabia alone pledged to cut 500,000 bbl/day, and Russia will extend the output cuts until year-end. Oil futures initially rose by as much as 8% and are now trading around 4% higher (Brent around \$83.8/bbl this morning). Our commodities team [has revised our 2023](#) average Brent price forecasts for \$93/bbl.

All of this has fuelled fears that inflation will prove to be a longer-lasting problem for central banks. And while many central banks (like the ECB) have managed to reliably convey a hawkish message despite recent market turmoil, the ultra-volatile market pricing for the Fed's rate path is once again set to be one of the most impacted. The Fed Funds future curve is currently pricing in a 63%

implied probability of a May hike and less than 40bp of cuts by year-end in the US. By comparison, on 24 March, the same curve was embedding a 24% chance of a May hike and 88bp of cuts by year-end.

In FX, we are seeing the unwinding of this dovish narrative being translated into a higher dollar this morning. This follows some decent momentum for the greenback at the end of last week on the back of some position squaring and catch-up with previous moves in Fed rate expectations. With crude prices being the driver of today's FX moves, oil-sensitive currencies (NOK, CAD) are also being supported in the crosses, while the likes of JPY, GBP and the euro are paying the price of shrinking monetary policy divergence.

We have been holding a bearish bias on the dollar on the back of the unresolved US regional banking crisis, diverging monetary policy paths in Europe and the US and the rising risks of a hard landing for the US economy. The OPEC+ move may have given the dollar a temporary lifeline, but we still think that markets will want to hear more reassurance from Fed Chair Jerome Powell that the Fed will indeed go ahead with more tightening in spite of recent financial turmoil to allow the dollar some more stabilisation.

We don't see any scheduled Powell speech in the coming week, but the focus will be on data in the US, with ISM manufacturing today, ISM services (more important) on Wednesday and jobs figures on Friday (when markets are closed for the Easter holidays), as well as some Fed speak. Any signs of weakness in the data will likely push dovish bets back higher after the recent big unwinding of rate-cut bets. Solid data and hawkish Fed comments may help reinforce May Fed hike expectations and help build a floor below DXY around 103.00/103.50. Looking ahead, lacking a hawkish tilt in the Fed message, a move to 102.00 remains a tangible risk.

Francesco Pesole

➔ EUR: Move to 1.10 delayed

It's going to be a rather quiet week in the eurozone. The data calendar does not include any key release, and some focus will only be on some ECB speakers – although there has been an abundance of comments by Governing Council members in the past few weeks. In this sense, remarks by President Christine Lagarde and French Governor Francois Villeroy on Friday endorsed market expectations for another hike in May (around 90% priced in). The OPEC+ production cut is another bit of bad news for eurozone inflation and raises the risk of higher-for-longer rates by the ECB.

We had called for EUR/USD to break above 1.10 sometime this week, but the asymmetrically positive impact on the USD of the OPEC+ surprise cut means that such a call now likely requires some disappointing data out of the US, given the lack of euro-specific drivers this week. This is not necessarily our base case, and EUR/USD bulls would probably welcome the pair ending the week around 1.0850/1.0900. Strong US data and hawkish Fed commentary can see the pair test the 1.0700 and 1.0600 supports.

Francesco Pesole

➔ GBP: A quiet week in the UK

The pound should continue to move in tandem with the euro, given few catalysts to drive a

consistent divergence from the common currency and external (dollar) factors dominating in FX. So, EUR/GBP may keep hovering around 0.8800 in a week where both the UK and eurozone's economic calendars are pretty much empty. On the Bank of England side, we'll hear from a few MPC speakers, including Chief Economist Huw Pill tomorrow.

If a move to 1.10 in EUR/USD was delayed by OPEC+, the same could be said about a move to 1.25 for Cable. The dollar leg of GBP/USD will keep driving most moves in the pair this week and US data will be in focus.

Francesco Pesole

CEE: NBR and NBP to confirm stable rates

We expect another busy week in the region. PMIs across the CEE for March will be published today, and we don't expect many changes in Poland and the Czech Republic, on the other hand, we can see some deterioration in sentiment in Hungary. A meeting of the National Bank of Romania (NBR) is scheduled for tomorrow. We **expect** rates to remain unchanged, however Robor is below the policy rate and in recent days we see pressure on RON weakening, so we can hear a more hawkish tone.

On Wednesday we will see industrial production in **Hungary** and the decision of the National Bank of Poland (NBP), where we do not **expect** any change in rates. The governor's communication may be a bit mixed given inflation remaining persistent and the economy slowing sharply. However, we do not see room for rate cuts this year despite the dovish market pricing. Industrial production in the Czech Republic and retail sales in Hungary and Romania for February will be published on Thursday, which may highlight slowing momentum in the region. Friday is a public holiday in the Czech Republic and Hungary and local markets will be closed.

Global conditions for the CEE region remain positive. EUR/USD is gradually moving higher, and we still see some room for a reduction in the risk premium after the recent turbulence. In addition, the level of gas reserves in the region at the end of winter indicates that the situation should be under control in the future. Central banks in CEE are maintaining a relatively hawkish tone compared to global players. Thus, high FX carry and balanced positioning will continue to attract CEE FX buyers in our opinion. For some time, we have preferred the Czech koruna and the Hungarian forint, however, as we mentioned on **Friday**, we expect that the Polish zloty could also join the club. On the other hand, the Hungarian forint could be hampered by headlines coming from the European Commission this week if any problems are found in the Hungarian government's progress in trying to unlock access to EU money.

So, if favourable conditions persist globally we expect further gains across the region this week. For the koruna, we see 23.40 EUR/CZK as the next checkpoint on the swift way down. On the other hand, the forint should slow down a bit and touch 378 EUR/HUF. The Polish zloty is retesting 4.670 EUR/PLN, which should also be the task for this week to settle below this level. The Romanian leu reached NBR intervention levels for the first time this year and is likely to stay at 4.95 EUR/RON for a while.

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