

REVISED - FX Daily: Optimistic bias to the test

Markets appear to be giving an asymmetrically larger weight to the encouraging bits of US data releases (like yesterday's PPI), perhaps mirroring communication by the Fed which has failed to turn much more hawkish as disinflation has stalled. Today's CPI will be pivotal: we expect a 0.3% MoM core print, in line with consensus



➔ USD: Testing markets' upbeat bias on US data

The dollar is facing some pressure into today's pivotal US CPI print. The sources of this pressure are both domestic and external. Yesterday's core PPI figures came in hotter than expected in April at 0.5% month-on-month but markets saw some optimistic developments for disinflation in a) sharp downward revisions for March (to -0.1% MoM), and b) some price components of the PPI that feed into the Fed's preferred core PCE (airfares and hospital outpatient care) actually fell in April. Still, there appears to be a bit of an "optimistic bias" in the way markets have interpreted these figures, as portfolio management fees rose 3.9% and those also feed into the core PCE. There are also reports suggesting that the core PCE figure may face upward pressure this month from California's fast-food minimum wage 20% hike, which is not reflected in CPI.

The other key domestic development for the dollar was a speech by Federal Reserve Chair Jerome

Powell, who said he does not believe the next move will be a hike. Despite Powell reiterating that rates will likely need to be kept high for longer, it's hard to ignore the relatively modest hawkish shift in the Fed's communication after three months of sticky price data as opposed to the significant dovish pivot on the back of disinflation evidence back in late 2023. If markets have indeed some optimistic bias on inflation data and US rates, then the limited hawkish adjustment by the Fed is probably one reason.

On the external side, news of China considering some state support for the slumping housing sector has given a small boost to the Antipodeans, the Aussie and New Zealand dollars, and helped the US dollar stay offered in Asian trading. The proposed measure would reportedly prompt local governments across China to purchase unsold houses – a much bigger support measure than the current pilot initiatives across the country, and one that is helping ease the negative spillover from fresh US tariffs on Chinese exports.

Back to the US, today's core CPI report is expected to come in at 0.3% MoM, which is also our call. If we see a consensus 0.3%, then markets will be moved by both the decimal places before rounding and how components that are included in core PCE behave. Retail sales for April are also released today.

Our CPI call is in line with consensus today, and we suspect the net impact on the dollar beyond very short-term volatility may be neutral. If we are right with CPI today, then there is a good case for markets defaulting to a directionless and low volatility environment for longer, which can imply a rangebound dollar and lingering pressure on the yen on the back of carry trade demand.

Francesco Pesole

➔ EUR: Driven by the US

Eurozone developments are being dwarfed by the US calendar events, and EUR/USD is set to be driven by the USD leg for longer. Today, we'll see the second release of the eurozone's 1Q GDP, which came in at 0.3% quarter-on-quarter in the advance print, and industrial production figures for March. The European Commission is also set to release new economic forecasts this morning, which could see the more upbeat tone on the region's growth cemented after more improvement in the ZEW survey indicators yesterday. Although not immediately visible, potential government support for the real estate sector in China bodes well for the eurozone's export machine. On the European Central Bank side, we'll hear from Olli Rehn, Madis Muller, Francois Villeroy and Gabriel Makhlouf today.

EUR/USD has broken above the 100-day 1.0823 MA average and – should it receive more help from US data – would be facing the next technical resistance at the 1.0885 April highs and 1.0900 psychological level.

Francesco Pesole

➔ SEK: No inflation rebound in April

Sweden's April inflation published this morning came in a tad lower than expectations. CPIF excluding energy was unchanged at 2.9% year-on-year despite expectations for a re-acceleration to 3.0%, and the headline CPIF rebounded only marginally from 2.2% to 2.3% YoY (consensus was 2.4%).

Does this mean the Riksbank will cut again in June? As things stand now, it does not look very likely. Officials seemed focused on discouraging bets on back-to-back rate cuts after the May rate move, and a generally less dovish tone by the ECB combined with delayed Fed easing plans should disincentivise another cut in June. This might change if US CPI comes in markedly below expectations, the krona rallies in the next month, core CPI slows further in the May reading and the ECB does not sound too hawkish as it cuts rates in a couple of weeks' time.

The krona remains primarily driven by external dynamics, but the notion of a dovish Riksbank means it will continue lagging other high-beta peers like NOK, AUD and NZD in any risk-on rally. The US inflation risk event continues to favour EUR/SEK upside potential to the 11.80 area in the short-term, even if we remain bearish on the pair ahead of ING's projected September Fed cut.

Francesco Pesole

CEE: First quarter GDP numbers to prove recovery

This morning the flash GDP numbers in Romania for the first quarter were released, posting a disappointing 0.1% YoY growth in 1Q. Later today we will have the same numbers in Poland with our expectation of 1.5% YoY. We will also see the final April inflation numbers in Poland which should confirm the flash 2.4% YoY.

Yesterday's inflation in Romania brought a significant downward surprise but our economists believe that we [must not be fooled by April's figure](#). The entire forecast error came from the large impact of lower energy price caps. Beyond that, however, there is not much to cheer about. However, today's NBR inflation report should show whether it was also a surprise for the central bank. That could help us decide whether to expect the first rate cut in July or August, which is now our baseline.

In Hungary, on the other hand, Deputy Governor Barnabas Virag reiterated yesterday that he sees rates between 6.75% and 7.00% in the middle of this year. This implies 50bp+25bp of rate cuts, which is our base case scenario, or 50bp+50bp. The rationale here is clear, i.e. a rise in inflation in the second half of the year, which is our forecast. The forint seems to like the hawkish tone and continues its three-week rally despite our negative bias in the last few days. EUR/HUF stood at 385 yesterday, the lowest since early February. HUF seems to have fully decoupled from rates and we cannot expect a pairing anytime soon. Despite rates not reacting much to NBH comments, it is clear that FX likes it. Of course, the more risk-on sentiment of the last two weeks and a weaker US dollar helps. However, we still believe HUF is not out of the woods and medium term, we are rather negative given the uncertain economic recovery and fiscal risks, with EUR/HUF above 390 mid-year. Short term, however, it looks like HUF may enjoy stronger levels for a bit longer than we expect.

Frantisek Taborsky

A previous version of this article incorrectly stated that the core CPI consensus estimate was 0.4% MoM instead of 0.3% MoM.

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