FX Daily: PBoC pushback softens the dollar bull case

Last Friday, many were focused on the sharply higher USD/CNY and questioning whether Chinese authorities were allowing a new period of renminbi weakness. The PBoC has pushed back against that overnight. Looking ahead in this holiday-shortened week, we are all expecting a firm US inflation print on Friday. It's another tough week for dollar bears

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USD: At least China us holding the line in FX

On Friday, we released our FX Talking monthly update for March. We rather put our necks on the line by emphasising (albeit a long-held view) that the dollar would start to turn lower in the second quarter. What did not help that release was the stronger dollar on Friday, where markets were speculating that the People's Bank of China (PBoC) might have taken a decision for one of its episodic bouts of CNY depreciation – a move which generally carries Asian FX with it and provides support to the dollar globally. Fortunately, the PBoC has today pushed back against ideas of a CNY down-leg by delivering a stronger CNY fixing. There have also been reports of state banks selling dollars – all pointing to the view that Chinese authorities prefer a stable renminbi as it works through economic challenges at home.

The support to the renminbi has helped to limit Friday's advance of the dollar, as has some quite aggressive verbal intervention in support of the yen from Japanese officials. Many in the market doubt Japan will intervene to sell FX at 152, with 155 seen as a more likely level. The core view here remains that it will have to be a dovish Federal Reserve and a weaker dollar that turns USD/JPY lower. A hawkish Bank of Japan (BoJ), where implied JPY yields through the forwards are still negative, is simply not enough.

Onto this week. Friday is a public holiday in many parts of the world but still features the key release of the week, the US core PCE deflator for February. There is a strong consensus behind a 0.3% month-on-month reading, which will not be good enough for the Fed's disinflation narrative. However, this week also sees quite a few Fed speakers. We would highlight the influential Christopher Waller speaking on Wednesday and Fed Chair Jerome Powell speaking on Friday We want to hear if the Fed has more to say about faulty seasonals making early-year inflation prints look too strong, a theme introduced by Chair Powell at last week's FOMC press conference.

A surging US stock market and the implications for US confidence and consumption make it hard to argue with the dollar right now, warning that DXY can push up to the 105.00 area. But we continue to expect this strength to be temporary and would prefer to position for a second-quarter downtrend.

Chris Turner

CEE: Spike in rates should overwhelm stronger US dollar

Labour market data in Poland and consumer confidence in the Czech Republic will be published today. Tomorrow, we will see this week's highlight in the CEE region – the National Bank of Hungary (NBH) meeting. We expect a 75bp cut to 8.25%, which is also the result of the surveys. However, the situation is more complicated given the amount of noise in recent weeks and EUR/HUF near the key 400 level. On Wednesday, Hungary will release labour market and current account data. On Thursday, we will see the final fourth quarter GDP numbers in the Czech Republic. This includes the wage bill, which will be of interest to the central bank. On Friday in Poland, we will see the release of March inflation, the first number in the CEE region. We expect a strong decline from 2.8% to 2.0% year-on-year, below market expectations, marking this year's inflation low before a rebound later.

Late last week, CEE FX was hit by a stronger US dollar, which rebounded after Wednesday's Fed meeting, making a rally in the region more difficult. Still, we see PLN and CZK undervalued at current levels and remain positive here. Both currencies have disconnected significantly from last week's rate developments and are following the US dollar more closely, which should be reversed the further we get from the Fed meeting. Therefore, we see EUR/PLN below 4.300 and EUR/CZK closer to 25.20. HUF remains fragile in our view, but we expect the NBH to try to deliver a hawkish message given EUR/HUF levels which could support the short-end of the curve and FX. However, given the unclear environment, we are rather neutral here.

Frantisek Taborsky

EUR: Mixed messages from the ECB

Despite EUR/USD being back at 1.08, the European Central Bank's trade-weighted euro has been doing reasonably well over the last month and is up around 1.5%. Looking at positioning amongst the speculative community, positioning is still net long euro – although asset managers did chop around 10% of their euro net longs in the latest reporting week. Net euro longs in this community have been pared back to levels last seen in November 2022 and are down around one-third from their peak last May. A better balanced market?

Following last week's surprise cut from the Swiss National bank, there has been increased scrutiny on ECB communication. This remains mixed, with one hawk on Friday still talking up the chances of an April rate cut. Notably, money markets still ascribe a very low probability to such an outcome and we doubt that changes much this week given the absence of key data. EUR/USD remains fragile, but at least the steadier story for the renminbi will discourage aggressive sales of EUR/USD through 1.0800.

Elsewhere, we have a Riksbank meeting this week. We like the Swedish krona on a medium-term basis, but are a little wary this week that the Riksbank will struggle to push back against market pricing of the first rate cut in May.

Chris Turner

GBP: BoE turns more dovish

Sterling is consolidating at slightly lower levels after the Bank of England's dovish bout of communications late last week. Thursday's dovish statement and minutes were backed up by an interview from Governor Andrew Bailey in the Financial Times on Friday. Here, he implied that multiple rate cuts would be coming through this year. That dovish turn from the BoE helps cement the 0.8500 floor for EUR/GBP – which now can work its way slowly towards the 0.87 area over coming month. Given our dollar view, we are not too bearish on GBP/USD and would expect some decent demand to emerge under 1.2600.

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