

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



The People's Bank of China, Beijing

➔ USD: At least China is 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.

Chris Turner

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.