

FX Daily: Plenty of optimism priced in

The rebound in the dollar proved very short-lived. Markets remain keen to jump into the de-escalation trade, and some tentative signs that the US Hormuz blockade is leading to a new round of talks were enough to add plenty of pressure on USD. From here, we'll need to see clearer progress towards a permanent ceasefire to take DXY back to pre-war levels



USD: Back to de-escalation trades

Failed US Iran talks in Islamabad over the weekend only gave the dollar very brief support. As yesterday went on, oil prices started falling again and the dollar followed. Markets seem to take the view that while the Strait of Hormuz blockade is a form of re escalation, it could eventually push Iran back to the negotiating table given the economic cost of lost oil exports. Trump's comment that Iran had reached out to restart talks triggered another round of USD selling, with DXY currently around 0.3% off Friday's close.

Markets remain heavily tilted toward a sanguine interpretation of events. That means plenty of good news is already in the price, which does increase the dollar's rebound potential if tensions flare up again. But it also means that it would probably now take a more meaningful re escalation to stop markets from fading any initial USD bounce, like we saw yesterday.

Some focus remains on any reactions from Beijing. An Iranian oil export blockade is particularly problematic for China and could add pressure for a quicker resolution. Clear signs that a permanent ceasefire is coming together could push DXY below 98.0, back toward pre war levels. That might sound counterintuitive as energy prices would remain comparatively higher, but other central banks have turned more hawkish than the Fed, which justifies USD weakness against other majors.

On the data side, we have PPI and NFIB Small Business Optimism today, both unlikely to have a major market impact.

Francesco Pesole

↓ EUR: Lagarde speaks today

ECB President Christine Lagarde will speak tonight in Washington. A few other Governing Council speakers are scheduled for earlier in the day. We would expect ECB officials to reiterate a broadly hawkish tone considering the lingering volatility in the Gulf. It would be quite surprising for markets to hear comments along the lines of "de-escalation reduces the likelihood of monetary tightening".

Pricing for the 30 April meeting is 10bp, and perhaps a lack of urgency in ECB comments can now help investors align with a hold this month. But two hikes later this year are becoming very much entrenched in swap pricing.

We feel that clear progress in US-Iran talks is needed to sustainably take EUR/USD above 1.180.

Francesco Pesole

↓ GBP: BoE speakers in focus

Bank of England Governor Andrew Bailey speaks in New York this afternoon. Earlier in the day, the two most hawkish MPC members, Catherine Mann and Megan Greene, are also due to deliver remarks. Greene has actually been rather balanced in recent comments, highlighting the dual impact of higher inflation and lower demand from the oil shock.

Bailey may well retain a balanced tone himself, implicitly signalling that a pause is the preferred course of action for now. We remain of the view that the BoE won't hike rates (market pricing 45bp by year-end), which should help a move to 0.88 in EUR/GBP.

Francesco Pesole

↑ CEE: Remain bullish on Hungary after the elections

Today, we will see more inflation figures for March in the CEE region. In Romania, the morning figures showed an increase from 9.3% to 9.9% YoY, above market expectations. We expect inflation to exceed/continue above 10% in the coming months, with a peak in April around 11%. This should keep the National Bank of Romania on hold for a longer period and we do not expect rate cuts this year.

In the Czech Republic, the final estimate of March inflation will be published, where the flash showed an increase from 1.4% to 1.9%, below market expectations. The question is where core

inflation moved from February's 2.7%, but for now, like other central banks in the region, we see the CNB unchanged this year. EUR/CZK is gradually grinding down and with levels below 24.350 it is not far from 24.250, ahead of US-Iran levels. Given the geopolitical uncertainty and the two CNB rate hikes priced in, we do not see the conditions for a return to these levels at this time.

In Hungary, we will continue to monitor the post-election market behaviour. Yesterday we saw a massive rally, especially at the long end of the curve with rates outperforming bonds and a slower appreciation in FX than we expected. This indicates how heavy positioning was built in the market before the election, especially in the FX and bonds markets. However, we remain bullish on Hungary in general, even though we may see some further profit-taking today. We therefore continue to see EUR/HUF stabilising in the 355-360 range and further flattening of the curve, where we believe the long end should benefit the most after the election.

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