

FX Daily: Powell testimony and UK budget in focus

A lot is going on in FX markets today. We have some important US job opening data and key testimony from Fed Chair Jay Powell. We should have an expansionary UK budget. And we have policy rate meetings in Canada and Poland. We think Chair Powell may not be quite as hawkish as some think today and we see some downside risks to the dollar



Jerome Powell delivers semi-annual testimony to the US House today

📉 USD: JOLTS data will be important today

FX volatility remains exceptionally low as investors wait on the next big move from central banks. We doubt this low volatility environment turns around anytime soon, but we do see today as providing some key inputs to the dollar story for this year.

We are focused on two key areas today. The first is the January JOLTS job openings data released at 16CET. This is expected to fall to 8.85m from 9.03m. More in focus is the 'quit rate' - i.e. what percentage of the workforce has voluntarily left work. This is a sign of a tight or loose labour market. At its peak in 2021 and 2022, nearly 3.5% of the workforce was quitting - reflecting very tight labour markets. The December 2023 reading had dropped to 1.8% (non-seasonally adjusted)

and a further decline today would suggest that the US labour market is coming back into better balance and the pressure for higher wages - a key driver of inflation - is abating. A low number here is a dollar negative.

The second big input is testimony from Federal Reserve Chair Jay Powell to the House. Many think that he will have to be hawkish in light of the strong January jobs and price data. However, there is a good chance that his tone is very similar to a recent speech from the Fed's Christopher Waller entitled, '[What's the rush?](#)' That speech emphasised that the Fed has the luxury of being patient and admitted that the January data had been strong. But the core message remained of successful disinflation and Fed rate cuts later this year. Equally, we would say that market pricing limits the extent to which the dollar can rally today (unless we have completely misread the Fed!). We had felt that 75bp of Fed easing would be the minimum the market would price this year. Last week the market cut its 2024 Fed easing expectations to just 78bp and we are now back at 87bp for the year.

There is of course big February US jobs data released on Friday, but if the above combination of events comes to pass today, DXY could make a move down to the 103.35 area.

We also notice that investors are starting to take the threat of a Bank of Japan rate hike more seriously. 3-month JPY swap rates have nudged up to the highest levels since 2016. We like the carry trade, but given the Japanese event risk over coming weeks and months (starting with the wage data on 15 March), investors may choose to switch their funding out of the yen and into something like the Taiwanese dollar, where funding costs are around 1% through the three month forwards.

Chris Turner

➔ EUR: Biding time ahead of the ECB

EUR/USD enjoyed a small rally on yesterday's slightly [softer-than-expected](#) ISM services release. However, the low volatility environment makes for a very sticky spot market and a breakout is hard to achieve. We think there are some downside risks to the euro from tomorrow's European Central Bank meeting - please see a preview [here](#). As such, should today's US event risk prove a dollar negative, we think EUR/USD will still struggle to sustain a break over 1.0900.

Elsewhere, we look for the National Bank of Poland to [keep rates at 5.75% today](#) - though tomorrow's press conference will be the bigger driver of the Polish zloty.

Chris Turner

⬆️ GBP: Chancellor Hunt to keep the sterling show on the road

1330CET today sees UK Chancellor, Jeremy Hunt, present a pre-election budget. This has been much previewed in the UK press and the very latest reports suggest he will be offering another cut in the National Insurance tax (incentivising workers) rather than the politically more popular income tax cut. In ING's [UK budget preview](#), our UK economist James Smith estimated that Chancellor Hunt had around £18bn of fiscal headroom to spend. Consensus also expects the FY24/25 Gilt remit (planned issuance) to come in at around £260bn versus £237bn in the prior year. Any higher Gilt remit could again un-nerve the UK Gilt market and trigger as much as 20bp of Gilt underperformance in the 10-year maturity. That could see GBP/USD hit around 1.5%, were it to

occur.

Yet Chancellor Hunt was brought in as a safe pair of hands to the UK Treasury and is only too aware of how much fiscal largesse he can deliver without upsetting the bond market.

Some decent fiscal stimulus should only delay the Bank of England easing cycle (we currently pencil in August for the first cut) and support sterling. Indeed, sterling is the only G10 currency to print positive total returns against the dollar this year. There may also be focus on new measures to support the UK financial industry, such as a new Individual Savings Account with tax incentives to invest in British-listed securities. There has also been [some petitioning of the Chancellor](#) to lower or abolish the 0.5% stamp duty on UK share trading, which puts Britain at a disadvantage for listings relative to most competitors. Any move here, as long as it was funded, would prove a sterling positive.

Overall, we are mildly positive on sterling today and can see a scenario where GBP/USD presses strong resistance at 1.2800/25.

Chris Turner

➔ CAD: BoC on hold ahead of summer cuts

The Bank of Canada announces monetary policy today, without releasing new economic projections. As discussed in our latest [Canada macro update](#), the BoC has received mixed signals from the economy since the 24 January meeting. Growth has been stronger than expected, but inflation declined at a faster pace. Back in January, the BoC dropped the reference to more rate hikes from the statement but still has to turn the discussion more explicitly to rate hikes.

There is a risk on the downside for CAD as the BoC may introduce some reference to monetary easing today, but the overall message should remain a cautious one. The rebound in Fed rate expectations has spilt into the CAD curve, which now prices in 90bp of easing this year. There is probably little incentive for the BoC to drive rate expectations lower at this stage, and they may be happy to make this an in-between meeting without much market impact.

We remain cautious about a rebound in CAD in the near term, although a broad-based dollar decline from the second quarter should – in our view – take USD/CAD to the 1.30 handle by year-end.

Francesco Pesole

Author

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

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