

## FX Daily: Prospects grow of joint Asian FX intervention

Amidst slightly calmer FX conditions, investor attention is drawn to an overnight press release from the Finance Ministers of Japan, Korea, and the US, where the Asian nations expressed their concerns over the recent depreciation of the yen and won. This raises the prospect of joint FX intervention between Japan and Korea should key levels be broken



Japan's Finance Minister, Shunichi Suzuki, with US Treasury Secretary Janet Yellen last year

### ➔ USD: Asian FX an important driver

Following the dollar surge on the back of the strong March CPI and retail sales data over the last week, attention this week has turned to the run-up in USD/Asia and what local authorities are prepared to do about it. Earlier this week we discussed how the trade-weighted renminbi had rallied 1.5% recently as global currencies depreciated against the dollar while the PBOC had held the line in USD/CNY. Since then, PBOC fixings have been steady, just above 7.10 - but the issue of whether China will allow some catch-up depreciation in the renminbi remains a hot one.

At the other end of the spectrum are those currencies that have fallen heavily. Recent weakness in the Japanese yen and Korean won has elicited quite a response from local finance ministries. In

fact, yesterday saw the first-ever trilateral meeting of the finance ministers from Japan, Korea and the US. The press release saw Japan and Korea express 'serious concerns' about the recent sharp depreciation of the yen and won.

It may be too much to read into this a US sign-off on Asian FX intervention, but this new coordination between Japan and Korea does raise the prospect that both could intervene at the same time - were USD/JPY and USD/KRW to be trading through, say, 155 and 1400 respectively in a disorderly manner. Recently, USD/JPY and USD/KRW one month traded FX volatility has been on the high side, near 10% and 9%, respectively. For reference, when the Bank of Japan last intervened in September/October 2022, it sold \$70bn. And Bank of Korea FX Market Stabilization data shows the BoK in the FX market for anywhere between \$2bn and \$6bn per quarter last year.

Any large-scale FX intervention could temporarily slow the dollar's advance, although a reversal is going to require quite a change in current conditions. Here, Fed hawks, such as Michelle Bowman, last night hinted that the Fed might need to hike rates. And the real prospect of [escalation in the Middle East](#) will also keep the dollar in demand.

For today, the US calendar is relatively light - just weekly jobless claims and existing home sales. But there are plenty of Fed speakers today. It will be interesting to see whether any comment on a subject introduced in last night's [Beige Book](#) that businesses ability to pass cost increases onto consumers had 'weakened considerably' - music to the ears of Fed doves.

We favour some shallow consolidation in DXY - perhaps holding the 105.50/60 level - before the bull trend resumes.

Chris Turner

## ➔ EUR: President Lagarde talks FX

Speaking in Washington yesterday, ECB President Christine Lagarde said the European Central Bank watches FX fluctuations 'very carefully', and obviously, the ECB takes into account the impact FX moves have on inflation. Our team wrote on [this subject yesterday](#). The conclusion was that it would take quite a large fall in EUR/USD - e.g. to parity and oil prices to be well above \$100/bl to make much material difference to eurozone inflation and ECB policy. In short, we do not see ECB rhetoric as much of a support to EUR/USD at current levels.

Eurozone data is light today - just the February current account data. The eurozone enjoyed a near EUR40bn current account surplus in January - a reminder that conditions are very different from when EUR/USD was trading below parity in late 2022 and the Eurozone was running a EUR30bn current account deficit on the back of surging oil and gas prices.

We suspect EUR/USD will struggle to sustain a move above 1.0700 today and remain bearish for the near term.

Chris Turner

## ⬇ GBP: Downside risks as BoE turns dovish

Sterling softened late in the European session yesterday after Bank of England governor Andrew

Bailey made some dovish remarks. He said that the UK faces less inflation risk than the US - a point that the IMF made earlier this week when noting the UK was running a negative output gap compared to a positive one in the US. This begs the question of why the market is pricing the same amount of easing this year - 45bp - for both the Fed and the BoE. We can see those expectations shifting over the coming months as more BoE easing is priced. This will be negative for sterling.

Our bias now for EUR/GBP is to 0.86 and above, while GBP/USD may well be capped at 1.2500/2530 before breaking sub 1.24.

Chris Turner

## 📌 BRL: Fiscal risks weigh on the real

The Brazilian real has been one of the worst performers over the last week. All the high-yielders have been hit on the unwind of carry trade strategies as volatility has risen. Yet the fiscal side, which is Brazil's Achilles Heel, has also reared its head again. Earlier this week Brazil's Finance Minister suggested that Brazil might have to soften its fiscal targets this year.

We continue to much prefer the Mexican peso to the Brazilian real. We also are worried about Chile's peso and that real rates have been cut too low too quickly at a time of continuing dollar strength.

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