

## FX Daily: Rate spreads widen to late 22 levels

Some better ISM manufacturing data in the US has pushed dollar interest rate differentials to the most supportive levels since late 2022. Momentum is with the dollar, but today's US JOLTS job vacancy readings will be important too. Any lower numbers here suggesting better balance in the labour market could see the dollar hand back gains



### ➔ USD: JOLTS data in focus

The DXY is now trading above 105 and is at its strongest level since the middle of last November. This strength is an extension of the move seen late last week when the Federal Reserve's Christopher Waller delivered a less dovish speech. Since then, February PCE spending and price data have come in on the strong side and markets reacted yesterday – albeit in thin conditions – to an [ISM manufacturing reading heading back above 50](#) alongside a higher prices paid component. Having priced 80bp of 2024 Fed easing early last week, the market now prices just 69bp. Some bearish flattening of the yield curve has gone hand-in-hand with a slightly firmer dollar.

Looking ahead, this week features a myriad of Fed speakers. Given the direction of travel of the US data recently, it seems hard to expect any renewed dovishness on their side. Any reversal in this dollar strength (if it does come) will have to be data-driven. In addition to this Friday's release of March NFP jobs numbers, we would pick out today's JOLTS (job opening figures) as an important data release this week. The data is released at 4:00pm CET. Fed speakers have identified the JOLTS data as typifying the excess demand in the labour market, which was seen throughout the pandemic and is now reversing. Markets expect a slightly lower JOLTS job opening figure today, but any sharp slowing in the job vacancy rate would suggest a much better balance in the jobs market and less pressure for higher wages. We see this data as potential market mover which, if soft, could reverse some of the dollar gains seen late last week.

Unless, however, today's JOLTS data does come in soft, wider US rate differentials warn that DXY can comfortably trade above the 105.00 area through the early part of the week.

*Chris Turner*

## ➔ EUR: Can't argue with wider rate differentials

Two-year EUR:USD swap rate differentials are now at 145bp in favour of the dollar. These are the most supportive rate conditions for the dollar since December 2022. No wonder EUR/USD is comfortably trading under 1.0800. The 1.0695/1.0700 lows seen in mid-February are now an obvious short-term target. As above, we believe the US JOLTS data will have a big say in whether EUR/USD trades much below 1.0700 today, but equally a soft JOLTS figure could be worth a bounce back to 1.0770/80.

From the eurozone side of the equation, 11:00am CET today sees the European Central Bank (ECB) release its consumer inflation expectations survey for March. Three-year CPI expectations are expected to have dropped to 2.4% YoY – the lowest levels seen since the retreat from the spike highs of the pandemic. Low readings here will keep the market minded towards 90bp of ECB rate cuts this year (with the first cut fully priced for June) and keep EUR/USD on the soft side.

*Chris Turner*

## ➔ GBP: Holding gains

Sterling is perhaps holding up better than one might have expected after the dovish turn from the Bank of England a couple of weeks ago. EUR/GBP remains near 0.8550, when it looked like it would trade over 0.8600. Price trends are certainly moving in the right direction for the Bank of England, but perhaps it is the UK's smaller exposure to the beleaguered manufacturing sector that is keeping EUR/GBP down here.

It is a quiet week for UK data and speakers, but Thursday's final services and composite PMI numbers may prove sterling supportive – if they are confirmed at strong readings.

*Chris Turner*

## ➔ CEE: Fresh central bank forward guidance

Today in the CEE region, the PMIs for March will be published. These are unlikely to have changed much from the previous month. In the Czech Republic, we will also see Czech National Bank (CNB) minutes from the last meeting and the first quarter state budget result. Minutes should show

a discussion on the pace of rate cuts and perhaps some dovish signals given the two members voting for faster rate cuts. Tomorrow, Turkey's March inflation will be released, increasing from 67.1% to 70.1% YoY (above market expectations, according to our estimates). On Thursday, the National Bank of Poland (NBP) and the National Bank of Romania (NBR) will decide on rate settings. In both cases, we expect rates to remain unchanged. It will, however, be interesting to see indications regarding a possible cut later this year from each. On Friday, we will see monthly data in Hungary and the Czech Republic including industrial production and retail sales.

In markets this morning, we should see a reaction to the sharp downward surprise in Polish inflation on Friday, when the markets were closed. This should support further receiving flow in the rates space, which may temporarily undermine PLN and delay our expected return to 4.290 EUR/PLN. The NBP should maintain its hawkish bias at least for now and in turn support PLN later this week. Conversely, the CZK could benefit from a fresh wave of payers in the IRS curve, a reversal in positioning and a significant improvement in the rate differential in recent days. Some volatility could come from the CNB minutes with unclear forward guidance from the central bank. We remain rather negative on the HUF, which we fear strengthened too quickly after the National Bank of Hungary's meeting, following the unwinding of several rate cuts in the IRS curve. Next week, with the release of March inflation, we could therefore see a reality check.

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