

## FX Daily: Revenant dollar needs constant flow of good news

Scott Bessent and President Trump have delivered two consecutive days of positive headlines for US assets and the dollar – from de-escalations with China, to a less aggressive stance on the Fed and reiterating the 'strong dollar policy'. The dollar has further to run according to our models, but in our view requires Trump to deliver more positive news



President Trump on the South Lawn of the White House on Wednesday

### USD: Does Bessent care about a dollar rebound?

The dollar recovery is extending thanks to a broader de-escalation by the Trump administration on both US protectionism and Fed independence. There is probably a feeling from market participants that they have regained some "control" on the US government, and can somehow force a more friendly stance on key topics. That assumption is however far from a guarantee. Risk assets were already wrongfooted once by Trump's 90-day tariff pause only to get hit with substantial hikes in Chinese duties shortly after.

As highlighted in recent commentaries, there isn't a G10 currency with a higher positive beta to news of tariff de-escalation than the dollar. What we have seen in the past few weeks is a clear

skew towards bearish USD sentiment which mirrored a lack of trust in the US as an investment environment. Markets will be highly tempted to sell the dollar in the rallies at the slightest indication that Trump's more conciliatory tone on China and the Fed is changing. In other words, investors will be seeking confirmation of the more optimistic stance on US assets to justify further dollar gains.

Alongside indications from Trump that China will soon get a new tariff rate, a lot of focus was on yesterday's comments by Treasury Secretary Scott Bessent at an IIF event. We think it's quite relevant that he again reiterated the US has a "strong dollar policy". We have suspected that the plans for a weaker dollar (even via a [Mar-A-Lago Accord](#)) would have only come after an initial positive USD response to tariffs had helped shield US consumers from protectionism-led inflation. If Bessent sounded at ease with some reserve flows heading to the euro, he also affirmed that the haven status of the dollar won't be dented.

We sense the Treasury has been unhappy with the sudden loss of confidence in the greenback, and Bessent has appeared to offer some verbal support in back-to-back remarks on Tuesday and Wednesday. So far, it has worked. The dollar rebounded from Monday's selloff, but – as discussed – we think Trump needs to keep feeding markets with positive news to fuel further dollar gains from here. Already this morning, we are seeing a tendency to sell the dollar rallies, with USD/JPY more than half a percent off the overnight 143.50 peak.

The data side was meant to be secondary this week and yesterday's respectable PMI reads (considering tariffs) failed to shake the FX market. Today, along with durable goods order figures for March, jobless claims will be watched closely. Consensus is for a rise from 215k to 222k: a bigger jump would foment recessionary fears and temper the dollar recovery.

*Francesco Pesole*

## ⬇ EUR: Don't dismiss downside potential

As investors breathe a sigh of relief after Trump reassured them he is not seeking to remove Fed Chair Powell, the upside potential for EUR/USD has shrunk. As mentioned above, our view is that a still fragile dollar requires a constant flow of positive headlines to find additional support. That is no guarantee, but if the US administration is indeed seeking to fuel a market recovery, EUR/USD has more room to fall.

After all, our model still shows the pair is trading close to 3.5% above its short-term fair value. That is, the excess risk premium applied to the dollar after rate and equity differentials are taken into account. An important disclaimer is that the model looks at one-year rolling correlations, and high volatility tends to reduce the explanatory power. That said, we have little doubt the dollar retains a risk premium. Incidentally, positioning data has indicated the euro is the most overbought currency in the G10 after the yen.

We repeatedly warned our readers that picking a top in EUR/USD throughout this historical rally was risky. We now think the dollar recovery potential shouldn't be underestimated. The 1.130 area is key: in the past couple of weeks, attempted EUR/USD corrections faced heavy buying interest around that level. A decisive break below 1.130 can open the door for a bigger leg lower and probably signal a shift in interest to rebuild some strategic dollar longs.

Today's economic calendar in the eurozone includes the IFO surveys out of Germany (expectations

are for a modest decline in line with PMIs) as well as a few ECB speakers.

*Francesco Pesole*

## ➔ CAD: Relinked with USD before elections

The Canadian dollar has suffered much less than any other G10 currency from the USD rebound since Monday, when it had instead remained flat despite widespread rallies against the dollar. Since “Liberation Day”, the loonie and USD have re-linked. This used to be the norm before Trump’s attack on Canada with tariff threats started late last year. The ongoing re-linking has probably been a consequence of Canada being spared 2 April reciprocal tariffs, which allowed markets to default to trading the loonie as an extension of US growth sentiment (a key driver of Canadian activity) and therefore being highly correlated with the USD again.

We discuss this dynamic in our [market guide for the upcoming Canadian federal election](#) on 28 April. USD/CAD observed volatility has been significantly lower than other G10 currencies since “Liberation Day” – confirming the USD-CAD relinking – but the 1-week ATM volatility is trading at around 1.30 to 1-week historical volatility. That is unusual for USD/CAD before federal elections, meaning that markets are attaching a greater FX risk to this vote.

Our view is that markets are probably taking hints from polls and pricing in a majority win by the Liberals and current Prime Minister Mark Carney. If that ends up being the result next week, then the CAD impact should be limited and quickly overshadowed by borrowed USD volatility.

*Francesco Pesole*

## ⬆ CEE: Better sentiment supports the currency

Another day of weaker data in Poland. Retail sales for March were worse than expected, as was Tuesday’s industrial data. The nearly complete data from the real economy for 1Q25 indicates that annual growth was slower than the 3.4% YoY achieved in 4Q24. Both industrial output and retail sales have decelerated, with construction the only sector showing improvement. In such an environment, the National Bank of Poland is likely to ease monetary policy in May, and policymakers will debate whether the first rate cut should be 25bp or 50bp. In our view, the latter is more likely, and by the end of the year, interest rates may be reduced by 125bp, which is still less than the market is pricing.

Today, we will see consumer confidence in the Czech Republic, one of the last data releases before the Czech National Bank’s May meeting. At the same time, we could hear more from the CNB board, which probably already has a preliminary version of the new forecast. Although we expect a rate cut at the May meeting, risks are building on the hawkish side in the central bank’s tone so far.

CEE currencies saw some advance yesterday thanks to the risk-on mood after the US trade headlines. EUR/CZK moved below 25.00 yesterday and we believe there is more downside if the risk-on sentiment holds in the market. On the other hand, HUF rates have rallied significantly in the last week, outperforming CEE peers and tightening interest rate differential could start to be a problem for HUF which remains the most exposed currency to the global story in our view. Although we would need to see some new trigger for EUR/HUF to move above 410, HUF may lag due to rates behind CEE peers on the next rally.

Frantisek Taborsky

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Chris Turner**

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

[chris.turner@ing.com](mailto:chris.turner@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 [www.ing.com](http://www.ing.com).