

## FX Daily: Riksbank to resist dovish temptation

FX markets are still struggling to find direction, and we expect dollar crosses to keep stabilising until Friday's US PCE. Today, keep an eye on a speech by the Fed's Christopher Waller. In Sweden, the Riksbank should stay on hold and, in our view, not fully endorse rate cut expectations for 1H. SEK, however, still looks a bit fragile in the near-term



### ➔ USD: Keep an eye on Waller's speech

FX markets have been struggling to find clear direction since the start of the week, with US data still giving contrasting signals. Yesterday, consumer confidence took a hit, as both the March and a revised February print ticked below 105.0. However, durable goods orders were strong and beat expectations. Our economists have looked closely at the non-defence capital goods orders ex. aircraft gauge, which came in at a solid 0.7% in February but was revised lower to a 0.4% contraction in January. This is the best leading indicator for business capex, which has been rangebound in dollar terms since May 2022, meaning it has actually declined in real terms. In other words, the strong economic and equity performance in the US is not being paired with any rise in investment.

Today, monthly wholesale sales and inventory revisions are the only data releases on the calendar along with the weekly MBA mortgage applications. It will be more interesting to hear what the Federal Reserve's Chris Waller has to say tonight (2200 GMT) on the economic outlook. Remember that about a month ago, Waller delivered a speech ("[What's the rush?](#)") that offered a good preview of what Chair Jerome Powell later communicated in congressional testimony and the March FOMC. That is, the Fed has the luxury of patience, but the overall expectations are optimistic on disinflation. Waller is generally considered a hawk, so it will be interesting to see how he reacts to the latest data releases.

When it comes to Fed pricing, we doubt expectations for the June meeting will change much this week unless we see a surprise in Friday's PCE. There is still 19bp priced in for June and 78bp by year-end, which pretty much mirrors the March median dot plot. Some quarter-end flows may slightly mix up the FX picture today, but the dollar appears in stabilisation mode.

The most notable moves in G10 since the start of the week have been the further sell-off in G10 low-yielders: Swiss franc and Japanese yen. CHF has been a bigger underperformer, with a dovish Swiss National Bank that no longer targets a stronger CHF adding pressure on the currency, and we think it may be too early to pick a bottom. USD/JPY touched 152 overnight, continuing to test Japan's FX intervention tolerance. This may still be only a "verbal intervention" range, with another USD/JPY leg higher needed for actual FX intervention to be deployed (perhaps closer to 155). Remember that Japanese authorities look at the rate of change more than levels.

*Francesco Pesole*

## ➔ EUR: Limited impact of France budget news

Spain releases its March CPI estimates today, and while generally not being a major driver for markets, material deviation from consensus has generated market volatility in the past. Headline inflation is expected to rise back above 3.0%, but core should tick lower from 3.5% to 3.4%. Next up on the inflation release schedule in the eurozone are France and Italy on Friday, followed by Germany and the whole eurozone aggregate after the Easter break.

France hit the headlines yesterday as it reported the 2023 deficit at 5.5% of GDP, substantially above the 4.8% seen in 2022 and higher than the government target of 4.9%. As [discussed by our colleagues here](#), this was mostly due to a decline in revenues (like corporate tax, VAT, income tax), as well as softer GDP in 2H23. We estimate that the deficit may well exceed 5% again in 2024.

The euro has – however – remained shielded from the news as OAT spreads didn't move much. Fiscal concerns should rise again as we head into the September budget in France, but we think the European Central Bank will be well into its monetary easing process, making the general environment for eurozone bonds quite favourable.

Looking again at this week, we do not see major catalysts for a break higher or lower in EUR/USD unless US core PCE surprises (consensus is clustered at 0.3% month-on-month). We think the pair can stabilise around 1.0850.

*Francesco Pesole*



## SEK: We expect a moderate pushback against 1H cut by Riksbank

This morning, the Riksbank announces monetary policy and consensus is firmly calling for a hold. We agree and markets are not pricing any move either. The SNB's surprise cut last week may have raised some concerns that the Riksbank would follow suit today, but the inflation picture and the FX policy are very different in Sweden and Switzerland, so we can comfortably rule it out.

What markets will try to guess from this meeting is – instead – whether the Riksbank will cut in May (market pricing 17bp) and June (fully priced in). As discussed in our [Riksbank preview](#), policymakers will publish new projections today, including on the policy rate, for the first time since November. Back then, they were signalling no cuts until late 2025, meaning some dovish revision is due.

However, remember that the Governor Eric Thedeen has shown a particular sensitivity to market pricing and crucially, to the krona's performance. With EUR/SEK having rebounded to the 11.45-11.50 area, and no more FX hedging offering daily support to the krona, dovish signals may be quite costly for a central bank that is focused more than most of its peers on averting fresh currency-led inflation.

Our view is that the Riksbank will revise the 2024 average rate projection to 3.95%, and have the year-end value around 3.50%. That would imply that a rate cut is possible in the first half of the year, but is not a done deal. We also expect the message to reiterate data dependency. Ultimately, that should sound like a moderate pushback against May/June cut pricing, although SEK is facing some rather soft momentum and the simple fact that the Riksbank would signal the chance of a cut in 1H could keep markets attached to some expectations of a May move. EUR/SEK is, in turn, still facing some upside risks to 11.50-11.55 in the short term. But we like the chances of a sustainable move lower as early as April.

*Francesco Pesole*

## ➔ CEE: Central bankers in the spotlight

Today's calendar in the region is basically empty and the market can focus on the impact of yesterday's central bank decision in Hungary and the launch of the central bank governor's investigation in Poland. As [expected](#), the National Bank of Hungary cut rates by 75bp to 8.25% and tried to send a hawkish message. EUR/HUF stabilised at 396 after the end of the press conference, which is stronger than previous days but still weaker than last week. The initial HUF strength and subsequent correction indicate that the NBH's hawkish tone did not resonate as much as one might think, which in our view leaves the HUF fragile. A little hope comes from the rates space where we see the entire curve slightly higher, which if we see more repricing tomorrow could support FX. Otherwise, however, we are more likely to see a re-weakening back to the 397-398 EUR/HUF range.

In Poland, the government has officially announced the launch of an investigation of the central bank governor Adam Glapinski, which could potentially end with his suspension. However, for now, we are far from this scenario and the whole process has been very well telegraphed by politicians in previous weeks. Thus, the market was not too surprised and the zloty weakened only very slightly to 4.310 EUR/PLN. In our view, this is a reaffirmation that this is no longer a topic for the

markets and the headline risk is off the table. Therefore, we remain positive on PLN and believe that the higher interest rate differential of the last two weeks will help EUR/PLN return to 4.290.

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