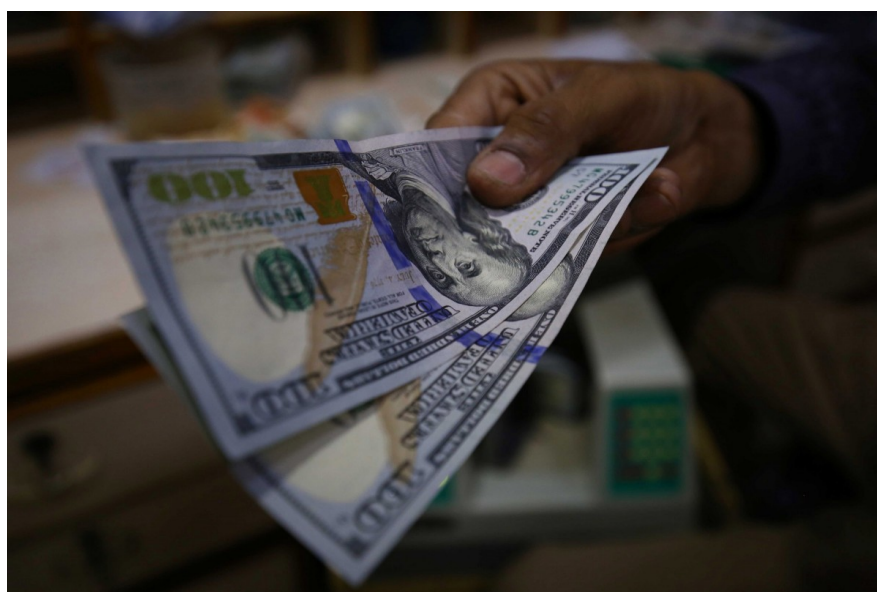


FX Daily: Rising CPI inflation to keep FX focus on the fast-responders

We will see March CPI prints for quite a few economies this week (including the US). New cycle highs are anticipated. Expect these readings to favour the currencies backed by central banks ready to adjust rates fast, including the Fed. In contrast, the Bank of Japan is still sounding dovish, while it looks too early for the ECB to signal early rate hikes



USD: Dollar to stay bid ahead of Tuesday's March CPI release

The dollar starts the week on its cyclical highs. The move remains very much driven by surging inflation and the fact that the Fed looks prepared to deal with it through 'expeditious' normalisation of monetary policy. The market is currently expecting the Fed to hike rates by 250bp by year-end. And at ING, we look for 150bp of that tightening to come in the May-July period.

Interestingly, we have seen the US Treasury curve re-steepen over the last week. The move looks to have been largely driven by comments from Fed dove, Lael Brainard, and the March FOMC minutes that the Fed could start rolling off its balance sheet starting in May and the wind-down moving to a rate of \$95bn per month quite quickly. US 10 year yields are now at 2.75%. With

the long-end driving the rate adjustment at the moment, the FX pair most closely correlated with the long-end, USD/JPY, is now in the front seat of the dollar advance. As we highlighted last week, we doubt we will see Japanese FX intervention [to slow the move this side of 130](#). And another dovish set of remarks from Bank of Japan's (BoJ's) Kuroda overnight confirms that the BoJ remains on a very different page from the Fed.

In contrast, this week should also see an aggressive rate 50bp hike from the Bank of Canada (BoC) and a 25bp hike from the Reserve Bank of New Zealand (RBNZ) - both meetings taking place on Wednesday. Falling into the fast-responders central bank camp, BoC and RBNZ policy should continue to see the Canadian and New Zealand Dollars out-perform the likes of the Japanese Yen and the Euro.

In terms of the calendar this week, we will see the US March CPI release tomorrow, March Retail Sales on Thursday, and many Fed speakers. With much uncertainty in the global economy, we suspect investors will be happy to hold onto long dollar positions over the forthcoming Easter break, and we think DXY has a chance of securing a foothold over 100.

➔ EUR: Macron versus Le Pen run-off should keep EUR subdued

EUR/USD gapped higher in Asia to 1.0950 - conceivably on the view that French President Macron did a little better than expected in the first round of the Presidential election. But both Macron and Le Pen increased their vote shares and look set for a relatively tight run-off vote on April 24th. As we highlighted in our [election preview](#), the FX options market prices volatility for Monday, April 25th at two and a half times normal levels. As such, it is too early for the market to relax over this event risk and no surprise that EUR/USD did not hold gains in early Asia.

For this week, the two highlights for the euro will probably be Thursday's ECB meeting and whether there are any fresh Russian sanctions emerging from the EU. On the former, our [ECB crib sheet](#) outlines potential scenarios for this week's rate meeting. Our base case assumes EUR/USD ends the week near 1.0800. On the latter, EU representatives are meeting today and tomorrow to potentially discuss a sixth wave of Russian sanctions. As we mentioned last week, European leaders don't yet look ready to agree on a full embargo of Russian oil and gas - where any agreement would exacerbate stagflationary risks and be euro negative, in our opinion. For the time being, expect EUR/USD to trace out a 1.0850-.10950 range.

Elsewhere in Europe, we have just seen Norwegian March CPI surprise on the downside - which may leave the Norwegian kroner a little soft today. We will also see March CPI in the Czech Republic. We [had felt that there would be upside risk to this number](#), yet Hungary actually surprised to the downside. Let's see what the Czech release has to offer, but our overall view is that it is probably too early to be looking for a top in the Czech rate cycle.

➔ GBP: Softer February data for the UK

The UK has just released a soft set of data for February, including monthly GDP, industrial production, and trade. Given that we continue to back the dollar over the coming months, we suspect it is just a matter of time before Cable breaks down to the 1.2850 area. On a longer-term basis, these are cheap levels for Cable. But based on our dollar view, we should see it staying under pressure for the next six to nine months.

➔ RUB: Sovereign debt default in focus

It looks, understandably, like there are very few participants in the rouble FX market. The lack of liquidity means that something like EUR/RUB can drop 5% quickly - as it has done over the last hour. Capital controls and the continued conversion of FX energy earnings are making the Rouble look bid.

Away from the rouble, the financial market focus on Russia this week is on whether a first technical default on Russian foreign currency sovereign debt will be declared. This would be the first default in over a century. At the weekend, the credit rating agency, S&P, put Russia in 'Selective Default' for servicing its FX debt in roubles, since the US Treasury has blocked dollar payments. We are also waiting to hear from the Credit Derivatives Determination Committee (CDDC) as to whether a [credit event has been triggered](#) on Russia Railways - seen as a test case for Russian sovereign debt.

Currently, foreigners own around \$20bn worth of Russian sovereign FX debt. This is already trading at distressed levels, but we should be wary that any confirmed triggering of Russian Credit Default Swaps (CDS) - and what it means for cross-defaults - could have broader credit market ramifications. Cautious positioning in broader financial markets, therefore, looks sensible this week.

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