FX Daily: Risk assets test Washington's tolerance

Risk assets are a little calmer at the start of a new week. US Treasury Secretary Scott Bessent has tried calming some nerves by calling equity corrections healthy. But a combination of US activity data (retail sales today) and the desire to push through trade reforms (big tariff update on 2 April) will test Washington's tolerance for weaker equities

We see US February retail sales data today potentially posing a risk to the dollar

USD: February retail sales need to rebound

Beyond all the uncertainty associated with this year's on-again-off-again US tariffs, one core theme weighing on US interest rates and equities has been the fear of a slowing US consumer. Consumption has been the outsized driver of US growth since the pandemic, and concerns are growing that consumers are ready to spend less and save more as they await clarity on the fallout we could see from the new administration's plans for both the economy and job prospects. We'll get an important input into that story today with the February release of US retail sales. Consensus expects a 0.6% month-on-month recovery in the reading after last month's 0.9% drop. Any downside surprise today probably risks weaker equities, lower US interest rates and a weaker dollar.

The big question for investors right now is how hard Washington will push its reset agenda. Equities have been vulnerable to comments that the administration is prepared to accept a slowdown – or perhaps even a recession – as it ushers in a complete reset on global trade and security zones. Given the prospect of sizeable tariffs coming in early next month against Europe and Asia, we suspect risk assets are going to remain fragile on a multi-week view.

Returning to some of the big events this week, Wednesday sees an FOMC meeting and a new set of Federal Reserve forecasts. No major changes are expected in terms of policy rates, forecasts or communication. We do see the event as a slight upside risk to the dollar, however, as the Fed sticks to just two 25bp cuts this year (61bp currently priced) and Chair Jerome Powell has a good track record of saying the right things to calm the stock market.

Also in focus will be geopolitics, where US President Donald Trump and Russian President Vladimir Putin are due to hold a phone call on Tuesday. Any progress here is probably further good news for European FX and soft news for the DXY. The week is also a very busy one for other central bankers with meetings in Japan, the UK, Sweden, Switzerland, Brazil and Indonesia. In the G10 space, only Switzerland is expected to cut rates this week.

US equity futures are currently trading down 0.6% even as Asian equity is showing modest gains on the back of a Chinese consumption package. Unless we get some surprisingly strong US retail sales figures today, a heavy-looking US stock market looks likely to keep US rates and the dollar on the soft side. DXY looks biased more towards 103.20/30 than 104.00/10.

Chris Turner

EUR: Insights into the April ECB pause?

It looks as though EUR/USD can stay relatively supported for the short term. As above, US equities may well keep the dollar on the back foot, and in Europe, the focus will be on fiscal stimulus, defence spending and whether the European Central Bank pauses in its easing cycle at its 17 April meeting. Potentially supportive for the euro this week are: a) Trump and Putin making any progress on Ukraine ceasefire talks, b) the German lower house passing reforms to the debt brake and approving a large fiscal stimulus, and c) ECB President Christine Lagarde potentially tilting the market towards a pause in April (she speaks on Thursday) when the market is still pricing 14bp of rate cuts at that April meeting.

The above could see EUR/USD nudge back up to the 1.0930/50 area. However, as we've outlined in our latest edition of FX Talking, EUR/USD could well come under pressure in April as Washington pushes through its reciprocal trade tariffs. 1.05-1.10 is our call for the EUR/USD trading range in the second quarter.

Chris Turner

GBP: Will BoE remain trapped with sticky wages?

All the UK action this week comes on Thursday. That's when we'll see both the next instalment of UK wage data and the Bank of England MPC meeting. On the former, consensus expects little leeway for the BoE to turn more dovish in that private sector wage growth is expected to remain above 6% three-month annualised. And there should not be much of a communication change at the BoE meeting, where we expect a 6-3 vote in favour of unchanged rates.

Currently, the market prices 53bp of BoE rate cuts this year. Our house view is for 75bp. And a potential catalyst to that dovish re-pricing is next week's Spring Statement from UK Chancellor Rachel Reeves. UK press reports are fixated on which government departments are at risk for spending cuts and the narrative of tighter fiscal policy looks a bearish one for sterling next week.

With the dollar also fragile, any sterling weakness may well come against the euro or the Japanese yen as investors opt for defensive positioning in equities ahead of the next burst of US tariffs in April. From levels near 193 today, GBP/JPY could well drop back to the 187 area over the coming weeks.

Chris Turner

CEE: Keeping a bullish stance

This week should be a bit lighter than the previous two as the CEE region moves into the second half of the month. The Czech PPI and current account across the region will be released today. In Poland, core inflation for February will be released. Friday's headline inflation surprised significantly to the downside, mainly due to the change in weights, implying a lower core rate than expected. We should also hear from Economy Minister Marton Nagy in Hungary today, potentially on further steps to fight inflation.

Industrial production, wages and PPI data will be released in Poland on Thursday and consumer confidence in the Czech Republic on Friday. On Wednesday, the Czech National Bank's blackout period begins – a day earlier than usual – so today and tomorrow we should see more headlines from the board regarding rates. For now, we saw a slightly dovish interview with Deputy Governor Eva Zamrazilova indicating two rate cuts this year. This is in line with our forecast, including a pause at the March meeting next year. However, given the fiscal expansion in Germany, we see a risk of only one rate cut in May this year.

Our bullish stance on CEE FX was realised only occasionally last week, resulting in a somewhat mixed outcome overall. However, the story is moving in a positive direction for the region, with some progress in German politics and fiscal expansion and negotiations on a peace deal between Ukraine and Russia. Both stories have somewhere to go and we think this will further support CEE FX.

Still, for us, the German DAX equity index remains a significant indicator of market sentiment and willingness to invest in CEE currencies, particularly HUF and PLN. However, due to game-changing inflation, the PLN may be more mixed and HUF could get a chance to outperform CEE peers. The CNB's pause in the cutting cycle and unclear outlook on rate cuts will support CZK.

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