

FX Daily: Sell-everything environment favours the dollar

Risk sentiment is deteriorating at the start of this week as the US and Iran appear far from peace discussions. Bonds and precious metals are following equities lower – an environment that heavily favours the dollar. Alongside Gulf developments, we'll watch central bankers' comments closely this week as a test of the recent hawkish repricing



Equities, bonds and precious metals are all taking a hit, and this is an ideal environment for the dollar

📈 USD: Upside risks persist

The weekend brought a few media reports about the US and Iran establishing some communication to discuss the terms of a potential ceasefire, but the tone remains highly confrontational for now. US President Donald Trump gave a 48-hour ultimatum on Saturday for the re-opening of the Strait of Hormuz, threatening to strike Iran's power facilities. Tehran has so far doubled down on its threats to extend the Hormuz blockage. Oil prices remain well-supported, with Brent still above 110\$/bbl and a sell-everything mood in markets affecting equities, bonds and precious metals. This is an ideal environment for the dollar, especially against higher beta currencies.

Alongside developments in the Gulf, we'll be watching Federal Reserve speakers very closely this week in light of the recent rate repricing and markets interpreting Chair Jerome Powell's press

conference as hawkish. Today, Stephen Miran is scheduled to speak to the media; he voted for a cut again last week, and we doubt markets will put much weight on his words. Speeches by Michael Barr, Lisa Cook, Philip Jefferson and Mary Daly are already scheduled for this week and a few more should be added.

Unlike in the eurozone and UK, markets aren't pricing in tightening in the US (less than 30% of a hike by year-end), but still sit in clear contradiction with the Fed's median Dot Plot, which shows a cut in 2026. Developments in the energy market will probably influence upcoming FedSpeak, but based on the Dot Plot there is a chance of some more dovish-leaning remarks relative to market pricing. After all, the Fed has a dual mandate and the already fragile jobs market may be facing a longer-lasting impact than inflation from this war.

Still, oil prices and implications for broader risk sentiment will remain the primary driver for the dollar, with any adjustments in Fed pricing driven by FedSpeak having a smaller and shorter-lived impact. A move below 99.0 in DXY would probably indicate some build-up of optimistic trades on the war in the FX market.

Francesco Pesole

📌 EUR: Hoping for clarification by ECB speakers

Watching central bank speakers may be even more important for the European Central Bank than for the Fed this week. Thursday's report that the ECB is considering an April hike has caused a major repricing in EUR swaps, which now attach an 80% probability to April, with three hikes fully priced in by year-end.

It still seems too hawkish to us, but we admit last week's messaging was clearly hawkish and when a central bank tightens, it often delivers no fewer than two hikes. The longer oil prices remain at these elevated levels, the more realistic those hikes will be. However, given the size of the hawkish repricing, dovish comments can cause significant adjustments in front-end euro rates. Today, we'll hear from a dove (Piero Cipollone) as well as Chief Economist Philip Lane. President Christine Lagarde is due to deliver remarks on Wednesday and there are plenty of other speakers to watch.

On the data side, PMI and Ifo surveys will be the highlight this week. Consensus is for a moderate decline in both, but considering the size of the ZEW drop, risks are on the downside.

EUR/USD has received support on hawkish ECB news, but with oil prices this elevated, risk sentiment unstable and markets already pricing in three ECB hikes, the risks look skewed to the downside. A correction to pre-ECB meeting 1.145 levels would confirm the FX market is not finding a sustainable anchor in the now tighter rate differentials.

Francesco Pesole

📌 GBP: Risk off argues against EUR/GBP decline

While Bank of England policymakers aren't as active in off-meeting comments as Fed or ECB members, we'll hear from Chief Economist Huw Pill tomorrow, and from Megan Greene, Sarah Breeden and Alan Taylor later this week. Here, rate expectations should also be very sensitive to any remarks.

On the data side, UK inflation for February is published on Wednesday but should not matter much

given the March developments so far. Tomorrow's PMIs will be more interesting.

EUR/GBP is around 0.5% above its short-term fair value in our estimates, but risk sentiment instability argues against major downward corrections.

Francesco Pesole

📌 JPY: Intervention above 160?

Japan's CPI, released tonight, should slow further in February thanks to the government's energy subsidy, indicating that the pre crisis disinflation trend continued. Still, core core inflation should remain well above 2%. With energy prices likely to rise again, inflation may pick up in the coming months, keeping the Bank of Japan cautious and unwilling to rule out further hikes.

Flash PMIs are also released tonight and are expected to fall sharply – especially in manufacturing, due to the sharp energy price increase.

USD/JPY rebounded sharply on Friday, and we think 160.0 can easily be broken in the coming days. That was probably the line in the sand for FX interventions before the war, but there is an obvious disincentive to intervene in a volatile market.

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