

FX Daily: Testing the easing pushback

Last week, the Fed traded the explicit openness to a pause with a pushback against rate cuts. Now, with US banking turmoil lingering and some key data on the horizon, markets may be tempted to price in more cuts. However, EUR/USD faces some stretched positioning in the near term. Elsewhere, a Swedish real estate firm's trouble may cause fresh issues for SEK



➔ USD: Three drivers of rate expectations

FX liquidity was reduced yesterday due to a national holiday in the UK, and while major pairs did not move dramatically, we saw quite significant gains in some G10 commodity currencies: NZD, NOK and AUD. Driving the move was the rebound in oil prices from the March bottom after Canada's wildfires generated supply disruptions. This morning, some [weaker-than-expected import data](#) (-7.9% year-on-year) out of China seem to be softening the tone for the commodity space and maintaining a not-so-constructive picture on the demand side. Still, exports (+8.5 YoY) and the trade balance (US\$90.2bn) beat expectations.

This will be a rather crucial week for markets to fine-tune their Fed rate expectations after Chair Jerome Powell seemed to trade the explicit openness to a pause in tightening with some pushback against rate cut speculation last week. There are currently 68bp of easing priced into the USD

curve by year-end, with three drivers set to influence further swings: US banking developments, data and Fed speak.

While data would intuitively be the most important driver, the now well-established link between the depth/length of banking turmoil and economic downturn is keeping a forward-looking market highly sensitive to incoming news, despite the Fed's more resolute attempts to provide an anchor to rate expectations. A report published by the Fed yesterday flagged increasing concerns about credit tightening by financial institutions, which can only worsen as the turmoil continues.

This week's calendar includes the release of US inflation for the month of April, which is expected to have steadied at 5.0% while the core rate may have slowed from 5.6% to 5.5%. So far, data are the missing bit in the market's dovish rhetoric, with [last week's payrolls beating estimates](#), both on the headline numbers and on wage growth. Today, the NFIB survey will be in focus. In terms of Fed speakers, we'll hear Philip Jefferson and John Williams today, and many others are lined up later this week.

While the short-term outlook for the dollar remains neutral in our view, thanks to positioning skewed to the short-side (more in the euro section) and unstable risk sentiment, markets remain ready to price in more Fed rate cuts, so downside risks are non-negligible. We favour a stabilisation around 101.50, but a drop below 101.00 and a test of 100.00 in DXY are tangible possibilities in the near term.

Francesco Pesole

➔ EUR: Positioning, positioning

The euro is the most overbought currency in G10 according to CFTC data and speculators continued to add net-long positions in EUR/USD in the week ending 2 May – when the latest data are reported. Net long positions are now worth 22% of open interest, the highest since January 2021 and not far from 27% five-year highs. This mostly has implications for the near term, so, while we remain resolutely bullish on EUR/USD in the longer run on the back of US-eurozone (and Fed-ECB) divergence and pronounced undervaluation, we flag positioning as one reason to be cautious on the short-term outlook.

This week's eurozone calendar is not very exciting, although there are many ECB speakers to keep an eye on. Olli Rehn, Constantinos Herodotou, Mario Centeno, Philip Lane, Bostjan Vasle, Boris Vujcic, Francois Villeroy and Isabel Schnabel are speaking today. While President Christine Lagarde clearly stated that the ECB is not pausing at last week's press conference, the statement included some new reference to "past rate increases being transmitted forcefully to euro area financing and monetary conditions". This has somewhat softened the overall hawkish tone, so we'll hear whether the block of ECB hawks has started to lose some support or has indeed slightly tweaked its rhetoric.

We expect 1.10 to keep being the anchor for EUR/USD this week.

Francesco Pesole

➔ GBP: Waiting for the BoE

There are no key data releases before the Bank of England meeting on Thursday. As discussed in [our meeting preview](#), we expect a 25bp rate hike, with a 7-2 vote split, an upward revision in

growth projections and a reiteration that further tightening is possible if “persistent” inflation signs emerge.

We don't expect to see huge volatility on the pound around the release, and see GBP/USD consolidating at levels above 1.25 in the aftermath of the BoE meeting.

Francesco Pesole

SEK: Real estate troubles as Riksbank's minutes due

SBB, one of Sweden's largest landlords, postponed the payment of dividends and revoked rights issue yesterday, after S&P lowered the company's rating to BB+ with a negative outlook. This is sending shockwaves to the real estate sector in Sweden (and also spreading across Europe) and once again raising questions about the path of monetary policy in Sweden in light of the large slumps in house prices.

Interestingly, troubles for SBB coincided with some encouraging housing data in Sweden, with apartment prices rising for a third straight month. That is, however, largely seen – including by the Riksbank – as a temporary relief, as the continued tightening of financial conditions suggests a resumption of the property price downturn.

Today, we'll see the release of the minutes from the Riksbank meeting in April, when the Bank increased rates by 50bp but two members dissented (more in [our latest SEK note](#)). One of those two members, Martin Floden, will speak shortly after the release of the minutes. All in all, negative news on the SBB story, signs of growing dissent within the Riksbank Board, and the speech by a dove suggest downside risks for SEK today. A rebound to 11.25-11.30 in EUR/SEK seems plausible this week.

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