

FX Daily: The yen needs a dovish Fed more than a hawkish BoJ

Japanese negotiated wages were reported at 5.3% this morning, the highest in 30 years. After some local media suggested the BoJ is preparing to hike next week, a move at the 19 March meeting seems likely. However, the yen is struggling to trade higher, showing how a US Treasury selloff can still overcome the impact of positive monetary policy developments



USD: An unsurprising rebound

The rebound in the dollar yesterday was not at all a surprise: as highlighted multiple times [this week](#), the yield advantage argued for a USD recovery in the near term, even before yesterday's PPI-led jump in Treasury yields.

The key point, in our view, is that the bulk of hard US data for February has now been released, and the needle has moved more to the hawkish side of the spectrum. The Fed can still sound relatively optimistic about disinflation next week ([here is our preview](#)), but policymakers will inevitably have to put greater emphasis on the next couple of months of data releases. In other words, data dependency may well resonate louder than forward guidance next week, and the recent strength

in US data will hardly encourage aggressive dollar selling, regardless of Powell's relative optimism.

Today, the data releases to watch are all second tier: Empire Manufacturing and University of Michigan's surveys (the inflation expectation indices could have some market impact). We discussed yesterday how the current 2-year USD swap rate would be consistent with DXY at 104. The index is now at 103.4 and we see no strong reasons why it should not go back to 104 before the Fed meeting. That is, again, purely on the back of pre-existing rate fundamentals, and does not require particularly hawkish expectations for the FOMC announcement.

Francesco Pesole

📌 EUR: Dovish ECB commentary continues

Eurozone member states' final inflation prints for February have continued to come in line with expectations and their flash estimates: today, eurozone-wide figures are published. The lack of market-moving data releases left EUR/USD to being driven by the dollar rebound, while some dovish comments by European Central Bank officials have hardly given markets a reason to hang on to the euro. After the comments by Yannis Stournaras yesterday (he favours two cuts before the summer break), another dove - Fabio Panetta - is scheduled to speak today, along with Boris Vujcic and Chief Economist Philip Lane.

EUR/USD is trading at more sustainable levels now, and we think it can remain under modest pressure into the FOMC meeting, in line with our dollar view. There are a few key moving average supports between 1.0840 and 1.0860: if broken, we could see the pair test 1.0800 in the coming days.

Elsewhere in Europe, the Riksbank continued to receive encouraging inputs on the inflation side. This morning, the closely watched Prospera inflation expectations showed a further decline in January, from 2.8% to 2.4% in year one and from 2.2% to 2.1% in year two. After some lower-than-expected February CPI prints yesterday, the chances of a rate cut in the first half of this year have increased. Markets now price in 18bp of easing for the May meeting, and we admit a move in May now looks like a tangible risk. EUR/SEK is back above 11.25, and we think it can keep finding support as the SEK curve faces dovish repricing.

Francesco Pesole

📌 GBP: BoE's Inflation Attitudes Survey today

The Bank of England will release its Inflation Attitudes Survey this morning. This is the second-to-last key piece of data before the policy meeting on Thursday: on Wednesday, we'll get the February CPI report.

Barring major surprises today, we think EUR/GBP will struggle to find direction into the CPI and BoE events next week. Recent price action showed that levels close to 0.8500 are stretched to the downside, and the relatively unchanged short-term rate differential does not argue for any break lower. When we look at the Sonia curve, however, 62bp of easing by year-end still probably looks too conservative: our economist's call is for 100bp, leaving a considerable gap to be covered on the dovish side and giving us reasons to think we'll see a higher EUR/GBP by year-end.

Francesco Pesole

➔ JPY: Strong wages not enough to lift yen

Headlines from Japan have continued to pour in over the past two sessions. Yesterday, a media report claimed the Bank of Japan is making final arrangements to end its negative interest rate policy next week. The lack of attribution in the report may have kept markets somewhat careful when it comes to pricing in a move, but today's news on the wage side is definitely endorsing hawkish bets. Japan's largest union federation, Rengo, has reportedly secured a whopping 5.3% average pay rise for the upcoming fiscal year. This is the biggest wage increase in 30 years and considerably higher than last year's 3.8%.

The JPY curve is now factoring in a 65% chance of a hike next week (19 March), but there is probably room for that implied probability to move higher after strong wages. After all, the BoJ had stressed how crucial pay figures were.

Interestingly, the yen is struggling to trade on the strong side, possibly suffering from a "buy the rumour, sell the fact" effect. At the same time, we have stressed multiple times how a sustainable rally in the yen relied more on a decline in US rates than a BoJ rate hike. We may be observing the symptoms of this dynamic particularly well now, with the jump in Treasury yields yesterday reasonably discouraging long-JPY positions. This is not just obvious in USD/JPY, but also in other crosses like EUR/JPY, which is still trading around 161.50. We remain of the view that the yen will struggle to trade on the strong side outside of volatility around a rate hike until USD rates move lower (which remains our base case for later this year).

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