

## FX Daily: Time for the euro to move lower, notably against the yen

The dollar is a little softer after Fed Chair Powell re-iterated that rate cuts were still on the agenda for this year and data showed that imbalances in the labour market were continuing to correct. Today's FX focus will be on the ECB. Here we see some downside risks to the euro. With speculation building again about a BoJ hike, EUR/JPY should move lower



Fed Chair, Jerome Powell, testifying before the House Financial Services Committee on Wednesday

### ➔ USD: Powell, round two

The dollar softened across the board yesterday on both Fed Chair Powell's remarks yesterday and the softer Quits Rate number we were [discussing yesterday](#). ING's Chief US economist, James Knightley, reviews that data [here](#). Today, Chair Powell will deliver the second leg of his testimony to the Senate. In the past, Fed Chairs have used the second leg to correct any market overreaction to the first leg. However, we doubt Chair Powell has too many issues with the modest risk rally yesterday's testimony delivered, and he should present a pretty similar message today. That message remains that the Fed needs to be patient, but the game plan remains rate cuts later this year.

We doubt US data will move the dollar much today and instead, investors are waiting to see if tomorrow's February NFP jobs release does indeed correct lower from the strong gains in January and December. Consensus is around 200k and any lower would probably be good for risk assets in that it would allow the short-end of the US yield curve to come a little lower.

There was also some focus on the New York Community Bancorp (NYCB) yesterday in that it was seeking an equity injection. Later, it was confirmed that a group of investors had injected USD1bn of capital into NYCB. We are no experts here, but this looks to be good news in that a) investors see value and b) NYCB now has more capital to absorb any extra loan loss provisions relating to its commercial real estate portfolio. Recall last year that SVB tried to raise equity capital but failed.

Given the DXY is heavily weighted to European currencies and that we are negative on the euro today, DXY should find some support in the 103.00/103.30 area today. Tomorrow's NFP data will be the bigger catalyst for a move. And a quick word on the mighty Mexican peso. Our favourite target currency in the carry trade is doing very well, with USD/MXN trading at 16.88. Mexico releases some important CPI data today, where a softer number can firm up expectations of Banxico cutting on March 21st. We think the short end of the Mexican bond market should start to do very well.

Chris Turner

## 📌 EUR: Three things to watch at today's ECB meeting

Carsten Brzeski has [written a nice preview](#) for today's ECB meeting, identifying three factors to watch: staff projections, communication and the conditionality for a June cut. If we were to pick from these the key drivers of the market, we would identify the ECB shifting to a balanced risk position on inflation and/or bringing forward the timing of a return to the 2% target (currently 3Q25). We, therefore, see some downside risks to the euro today. This can drag EUR/USD back to the 1.0850 area.

However, investors may be starting to look for a lower EUR/JPY now. Our models suggest that the yen is more undervalued than the euro, and some potentially dovish rhetoric looks to be offset by a Bank of Japan preparing to pull the trigger on a rate hike. Important Japanese wage data is released on March 15th and is likely to raise speculation that the BoJ will hike rates at the April 26th meeting, although some are now talking of a hike on March 19th (that seems too early for us). EUR/JPY is starting to break lower, and 160 looks like a good short-term target.

Chris Turner

## 📌 PLN: We remain positive

The National Bank of Poland kept [rates unchanged](#) with the reference rate remaining at 5.75%, in line with expectations. The MPC's post-meeting statement supports our call, i.e., better short-term CPI prospects, as inflation should remain close to the central bank target. At the same time, the MPC emphasises the risks to inflation in the medium term: the impact of fiscal and regulatory policy, the economic recovery and the tight labour market. The new projection shows a very optimistic picture of the so-called 'goldilocks economy'. The inflation path has fallen and GDP has risen, compared to the November projection. CPI reaches the target as early as 2024. Today, we expect the Governor's press conference to take a cautious tone that may mention expansionary fiscal policy or robust wage growth.

The Polish zloty has appreciated 0.4% against the euro over the past two days in anticipation of yesterday's news and we remain positive today as well. If the Governor delivers a hawkish tone, it should at least keep market rates at current levels while core rates have been falling significantly in recent days. Overall, this supports further gains for PLN. With EUR/PLN hitting the key 4.300 level yesterday, it may be a profit-taking level for some and getting lower may be difficult. However, for us, it is just a matter of time before EUR/PLN slides lower again despite heavy long PLN positioning.

Frantisek Taborsky

## ➔ GBP: Budget has not moved the needle

If a measure of success for yesterday's budget was for Chancellor Hunt not to upset the Gilt market, then it was a good budget. Indeed, bond investors seemed to take the news of a higher FY 24/25 Gilt supply remit in their stride. Most of the budget details had been leaked before, but the outcome, according to the independent Office for Budget Responsibility, is for a 0.3% of GDP per year boost over the budget cycle. Sterling swap rates barely budged on the news and in the short term, we believe sterling could do a little better either at the hands of a softer euro (today) or a softer dollar (tomorrow). 0.8525/35 should be the direction of travel for EUR/GBP today.

Chris Turner

## EGP: Key reforms point to pound stabilisation

[We have just published](#) a macro and FX outlook on Egypt following yesterday's round of key macroeconomic measures. Egypt's central bank hiked rates by 600bp to 27.25% and allowed market forces to realign the exchange rate with the parallel market, causing EGP to drop almost 40% vs the dollar (to the 50 mark). Investors had largely anticipated the moves, leading Egypt to secure a larger USD 8bn deal with the IMF.

Looking at the EGP NDF curve, it appears that the market reaction has been generally positive, with the 12-month tenor trading close to 55 as of yesterday's close. That is a relatively contained circa.10% EGP depreciation from spot and not far from the pre-devaluation level of 52. As discussed in our note, we think USD/EGP will stabilise at the more defensible 50 level, and authorities may focus on replenishing official reserves (now at USD 33bn) in the near term in case of any appreciating pressure on the pound. We expect a transition to a more free-floating FX regime to be only gradual.

Francesco Pesole

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