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FX

FX Daily: Time for some stabilisation?

With two weeks to go before the Fed and ECB meetings, central bank speakers have their last chances to steer market expectations before the quiet periods start. However, it appears markets have fully cemented their views around 25bp increases by both central banks in May, and lower volatility in rate expectations could favour a quieter FX environment



Chicago Fed President Austan Goolsbee - a more dovish voice, and a voter in 2023 - is scheduled to speak today

➔ USD: A few more Fed speakers to watch

Two weeks away from the FOMC May announcement, and markets are now fully almost fully pricing a rate hike (22bp), but the dollar is struggling to lay the basis of a sustainable recovery. We have continued to hear comments from Federal Reserve officials in the meantime, although markets are reacting in a much more contained fashion compared to the big moves seen after Chris Waller's hawkish remarks on Friday. Another arch-hawk, James Bullard, said he still favours multiple rate hikes and a higher-for-longer approach, although he will only become a voter again in 2025, so his comments tend to have less market impact. The more moderate Raphael Bostic, who returns as a voter next year, said his expectations are in line with the median dot plot projections: endorsing one last 25bp hike and then holding rates at

that level for some time.

There are only three more days for Fed speakers to steer market expectations before the quiet period: today, only Chicago Fed President Austan Goolsbee – a more dovish voice, and a voter in 2023 – is scheduled to speak. It does not look likely there will be any pushback against the market's conviction call on the May rate hike – which is simply in line with the dot plot projections – and we could see a bit of stabilisation in Fed rate expectations after the big volatility that lasted until late last week as the pre-FOMC silent period kicks off. In FX, this could translate into a quieter environment and lower volatility for USD crosses in the run-up to the FOMC announcement.

Today's US data calendar is not very busy: MBA mortgage applications and the Fed Beige Book are the only two highlights after yesterday's housing figures for March came in mixed (housing starts were better, building permits worse than expected). The lack of clear catalysts may leave DXY hovering around the 101.50/102.00 area for now, even though the short-term balance of risks for the dollar appears slightly tilted to the downside given lingering vulnerability to a potential improvement in risk sentiment now that the May Fed hike is fully priced in.

Francesco Pesole

➔ **EUR: No fresh drivers for a big move**

EUR/USD is struggling to find clear direction this week, probably lacking a big fresh driver to stage a sustained rally beyond 1.1000 whilst staying supported thanks to a softish dollar environment. There are some data releases worth monitoring in the eurozone this week, but the euro has not shown great reactivity. Yesterday's ZEW surveys in Germany were mixed, with expectations dropping sharply but the current situation index recovering much more than expected. This morning, we'll see March's final CPI figures for the euro area as well as current account figures.

The European Central Bank will hold a "non-policy" meeting today (so, no statement or press conference), but some information about policy discussion being held could transpire via media outlets. There is also a long list of ECB speakers: Chief Economist Philip Lane, hawks Klass Knot and Isabel Schnabel as well as dove Pablo Hernández de Cos.

Markets are pricing in 30bp of tightening in May, and a total of 82bp by October, which sets the bar quite high for a hawkish surprise: essentially, ECB members would need to open the door to another 50bp hike. The proximity to the May meeting suggests a more cautious approach to communication, and if anything merely reinforces the existing hawkish rhetoric which implicitly embeds 25bp rate increases. Ultimately, the euro may not be impacted by the ECB story today and EUR/USD should keep following risk sentiment and USD dynamics. The trading range for the pair may narrow further around 1.09/1.10 in the coming days.

Francesco Pesole

📈 **GBP: Inflation resilience adds pressure to the BoE**

UK data has continued to point to resilience in inflation and markets are increasingly inclined to bet on Bank of England tightening. Yesterday's surprise pickup in wages was followed by above-expectations inflation figures this morning. The March report showed headline inflation decelerating from 10.4% to 10.1% versus an expected 9.8% reading, with the core rate holding steady at 6.2%.

In light of this data, a 25bp rate hike by the Bank of England looks more likely. The lack of evidence of desirable descending paths in inflation and wages will make a hold a harder sell even though we doubt (and we think MPC members do too) that the resilience in inflation will last. Markets are pricing in 23bp of tightening in May, and 60bp in total before reaching the peak. We don't think the BoE will hike beyond May, which should limit GBP appreciation in the crosses further down the road. But for now, we could see EUR/GBP press again towards the 0.8800 level on BoE hawkish bets.

Francesco Pesole

📈 **CEE: Zloty is the focus of attention**

Today's calendar in the region offers only the PPI in the Czech Republic, which has been falling since the middle of last year and surprised to the downside in February and March. This could bring a bit of a cool down this time on the hawkish statements from the Czech National Bank and the paying flow in the rates market. In the FX market, the situation remains unchanged from last week. At the beginning of the week, we expected the rally to stop or at least slow down. This happened only in the case of the Czech koruna, where profit-taking sent EUR/CZK above 23.40 again. On the other hand, the Hungarian forint continues to rally and is within reach of 370 EUR/HUF. We previously mentioned this level as a low point that the forint could reach in the first half of the year. We continue to believe that positioning will be the main issue for further forint gains, but it seems that the situation may not be as dramatic as we previously thought.

Overall, however, we see 370 EUR/HUF as a key threshold that, as in the case of the Czech koruna, could trigger profit-taking after a month-long rally. Thus, from this perspective, the Polish zloty remains the most interesting, as it is not burdened by heavy long positioning, and we think the market would like to see the zloty rally. Thus, if the global conditions remain positive in the coming days, the zloty has an open door to new gains most of all within the CEE region. Already yesterday the zloty tested the 4.620 level, the strongest since the middle of last year, and we can expect to see another attempt today.

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