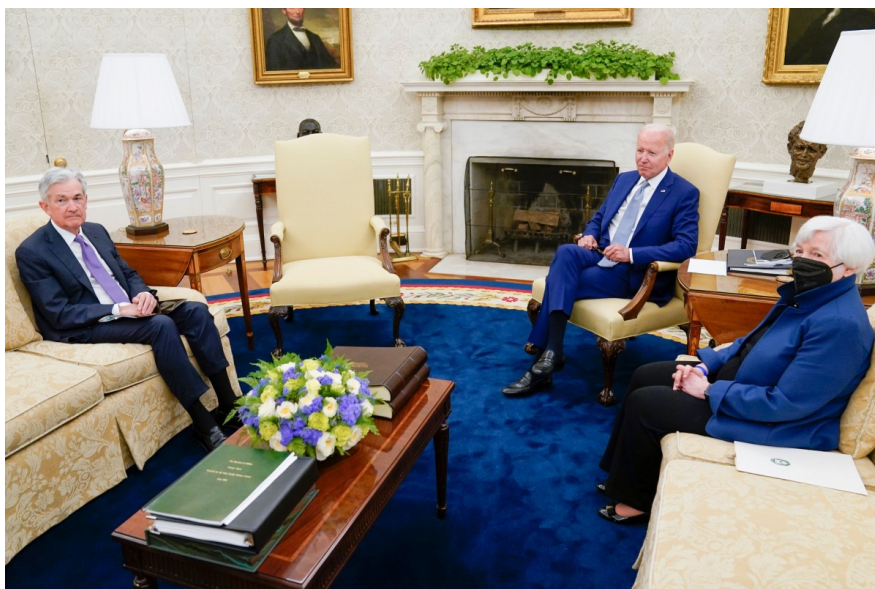


FX Daily: Trading places

The Fed's ambiguous communication has left rate expectations being driven no longer by Jay Powell, but by Secretary Janet Yellen and her stance on extending bank deposit protection. We saw a dollar rebound yesterday, but that may not last long as the Fed emerged as a dovish outlier while European hawks took centre stage. Today, PMIs may have limited impact



President Joe Biden with Fed Chairman Jerome Powell, left, and Treasury Secretary Janet Yellen

📉 USD: Yellen is the new Powell

As discussed in yesterday's [FX daily](#), the Federal Reserve's unclear communication may have set the stage for a dollar decline by leaving market pricing of rate expectations strictly tied to news on the banking crisis and the regional bank turmoil which is still looking unresolved in the US. At the same time, we highlighted how a further depreciation in the greenback is unlikely to look like a straight line: in an environment where news flies and changes rapidly, corrections – even of large magnitudes – are the norm.

The most obvious symptom of how the Fed has lost its grip on the market is US Treasury secretary Janet Yellen “stealing” Fed Chair Jerome Powell's spotlight as a market driver. This happened blatantly on Wednesday when a dovish Fed hike was out-shadowed by Yellen's backtracking on a “blanket” bank deposit insurance. Yesterday, she offered some reassurance to markets in that

sense, saying: “Certainly, we would be prepared to take additional actions if warranted”. This was enough to offer some relief to market concerns on the US regional banking troubles and take some pressure off rate cut speculation and off the dollar. And it is another testament to how markets seriously struggle to see the US small bank troubles being resolved without substantial support from the government.

Ultimately, this continues to endorse our baseline bearish bias on the dollar, as a situation that neither develops into a fully-fledged systemic crisis (which would be USD positive) nor significantly improves on the US regional banking side which should keep markets betting on Fed easing later this year. At the moment, there are around 90bp of cuts priced in, starting in July, and the unclear Fed communication is doing very little to reliably push back against those.

Today, we'll hear from Fed hawk James Bullard, and monitor PMI releases across the world. US figures are expected to stabilise around February's levels. Anyway, data are playing a secondary role now.

Francesco Pesole

👆 EUR: Hawks fly high in Europe

Since the onset of the banking crisis, central banks in the eurozone (last week) and in Switzerland and Norway (yesterday) all surprised on the hawkish side. This shows how the restoration of investor sentiment has come a long way in Europe since the fear of a black-swan Credit Suisse collapse a couple of weeks ago. Here are our review notes of [the SNB \(50bp\)](#) and [Norges Bank \(25bp\)](#) rate hikes. The latter went a step further into hawkish territory as it announced another hike in May, and projected a total of 50bp of extra tightening before reaching the peak this summer. The ultimate goal is clearly to offer support to the krone and limit imported inflation.

The focus today will be on PMI readings in the eurozone today. Like in the US, expectations are for a stabilisation in the survey around February's numbers, and barring huge surprises, the releases may not have a major market impact given how macro fundamentals are playing second fiddle to financial market stress at the moment. EUR/USD pulled back after breaking above 1.0900 as the dollar staged a comeback, but we think that 1.1000 can be tested quite soon as the dollar bias should stay mostly bearish and European currencies are backed by hawkish central banks and a quieter banking environment.

Francesco Pesole

👆 GBP: BoE hiked but gave very little guidance

The Bank of England [hiked by 25bp yesterday](#), which was fully in line with expectations. We only got a statement this time (no press conference), and it appears quite clear that the MPC has tried to keep all options open. We strongly suspected the BoE would refrain from offering any real bit of guidance to markets and that would have meant that the impact on the pound would have been very short-lived. This indeed appears to be the case.

Our economics team thinks that a May pause is likely despite the recent rise in inflation: with around 30bp of tightening in the price, there is room for a repricing lower to favour a modestly higher EUR/GBP. Looking at Cable, the BoE does not appear to be much of a factor, and our view for dollar downside risks means that the key 1.2420 and 1.2500 levels can be tested quite soon.

Today, UK PMIs will be watched after significantly stronger-than-expected retail sales this morning. Bank of England policymaker Catherine Mann speaks this afternoon.

Francesco Pesole

📈 CEE: Ready to rally further

Today's calendar offers only Czech consumer confidence data, the first leading indicator for March. We are seeing a strong rebound from historically record lows this year and further improvement can be expected this time around.

We will see more interesting news after the end of trading today. We have sovereign rating reviews in Romania and Poland. Fitch has held a negative outlook on Romania BBB- since April 2020 and we think there's more than a 50% chance that we could see a return to a stable outlook. Moody's holds a stable outlook on Poland A2 and we do not expect any changes this time. However, it will be interesting to follow the agency's view on recent developments in the government's relations with the European Commission, access to EU money and the FX mortgage saga.

On the FX market, our bullish view on the Hungarian forint and the Czech koruna is materialising, benefiting all week from higher EUR/USD, reduced risk aversion and record-low gas prices. We expect this trend to continue in the coming days and especially next week when the [National Bank of Hungary](#) and the Czech National Bank are both scheduled to hold meetings. Both central banks should confirm stable rates and a hawkish tone and push back against the dovish market pricing coming from the global story. In our view, this should extend the rally in the forint and the koruna.

Frantisek Taborsky

Authors

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.