

FX Daily: Trump-Powell standoff harms the dollar

The dollar is facing renewed pressure on Fed independence fears, which threaten one of the foundations of the dollar's value as a reserve currency. Downside risks have increased for USD, even though we tend to see further depreciation as temporary. The yen remains in a strong position ahead of Japan-US trade talks this week, and may eye 135 soon



President Trump is intensifying pressure on Fed Chair Jerome Powell to cut rates 'now'

➔ USD: Confidence crisis extends

Dollar losses of the past few weeks have been a combination of mounting US growth concerns and a loss of confidence in the dollar as a safe haven. The round of USD weakness seen on Easter Monday belongs to both trends. President Trump is intensifying pressure on Federal Reserve Chair Jerome Powell to cut rates "now", threatening one of the foundations of the dollar's appeal as a global reserve currency: an independent and inflation-responsible central bank. At the same time, many are speculating that Trump is looking to blame the Fed for the upcoming economic slowdown, which is a de facto admission by the administration that it is sharing the market's recessionary fears.

The current worst-case scenario for the greenback is that Powell caves in and delivers an emergency rate cut, although that remains a low-probability event. Removing Powell from office or his resignation would have similar market effects. There is a good chance Trump won't (or won't be able to) take any drastic measures, and Powell will stand his ground on keeping rates on hold until the tariff impact starts to show. It is equally likely that Trump will continue to intensify pressure to cut rates, considering the broad consensus for upcoming soft activity data. Let's see what kind of pushback Fed members offer this week; for now, the OIS curve continues to price in close to zero chances of a cut in May.

The reaction to Trump's comments on the Fed indicates how sensitive markets are to the topic of Fed independence, and we believe this adds a new layer of bearish bias on the dollar. At the same time, we must acknowledge how oversold and undervalued the dollar is, and the possibility that yesterday's drop was exacerbated by thinner liquidity. If the downside risks for the USD remain significant, the argument for stabilisation this week is quite persuasive.

What seems quite likely is that FX volatility will remain elevated, even though the US data calendar is pretty light this week. The Richmond Fed manufacturing and Philadelphia Fed non-manufacturing indices are the highlight today, although tomorrow's S&P Global PMIs should have the largest market impact.

Francesco Pesole

➔ EUR: 1.20 discussion now open

The latest round of dollar depreciation has sent EUR/USD through the 1.150 level. Now, there isn't any other key resistance until 1.20. Picking a top in the pair has proven a frustrating exercise, and Trump's attack on the Fed is likely extending the confidence crisis on the dollar. It is evident that the euro's fundamental impact on another significant EUR/USD rally would be minimal, as it would primarily benefit from liquidity-seeking flows departing USD assets due to its reserve value. In other words, a move to 1.20 would be driven entirely by USD factors.

Our latest forecasts are significantly more conservative on EUR/USD, as we see 1.13 as a more likely value for the end of this quarter. Nevertheless, we have often admitted ample room for short-term volatility, and the risks remain markedly skewed to further deviations on the upside for EUR/USD. If the Fed caves to Trump's pressure and cuts rates, the damage to the dollar might be enough to take EUR/USD to 1.20.

We would however see that more as the top of the dollar's confidence crisis rather than a new normal for the pair. After all, the euro retains the negatives of a [dovish ECB](#), which we think will cut twice more this year, and we aren't major subscribers to the view that the dollar has irremediably lost its reserve value. For now, our base case is that the EUR/USD rally will fall short of 1.20 and the short-term balance may sit around 1.14-1.15 even accounting for a sticky risk premium on the dollar.

The eurozone calendar includes PMI and Ifo surveys this week, alongside the ECB wage tracker. There is also a plethora of ECB scheduled speakers, who will fine-tune last week's dovish message. President Christine Lagarde speaks on CNBC at 15.00 London time today.

Francesco Pesole

📈 JPY: Strong position

The yen is the biggest winner in this latest round of USD selling, as it responds to both the equity slump and the risks of the Fed's independence. USD/JPY has dropped below the 140.0 mark and given the broad attractiveness of the yen as a safe-haven substitute, we don't see the conditions for an immediate reversal of the move.

If anything, the yen stands to benefit a bit more than the euro from USD outflows, thanks to a stronger domestic picture. Even if it's been reported that the Bank of Japan should keep rates on hold on 1 May and cut inflation forecasts on a stronger yen, data should still argue for the gradual tightening guidance to remain in place. Tokyo CPI figures for April are expected to show a major jump on Friday. Incidentally, it's been reported that Japan's ruling party is planning an emergency proposal of domestic support to counter the tariff impact.

Finally – and quite importantly – Japan has moved earlier than most other countries in negotiating with the US on a trade deal. Finance Minister Katsunobu Kato will meet with Scott Bessent this week and said currencies will be a key aspect of the discussion. If the Trump administration includes JPY strengthening as a condition for a trade deal, we could easily see USD/JPY aim at the 135.0 mark.

Francesco Pesole

📈 CEE: Mixed bag

The second half of the month is usually quieter in the CEE region, with only Polish dates on the calendar. Today we will see the March industrial numbers, wages and PPI, and tomorrow retail sales. March industrial output should look solid at face value, but the main factor behind that is most likely an exceptionally low reference base from March 2024. Demand for goods remains lacklustre, and the March retail sales reading is expected to be negative. Contrary to industrial output, the reference base in this case is high as the majority of Easter spending took place in March 2024, whereas this year we should see it in April. Consumer confidence figures for April will be published on Wednesday. Also, the spring IMF meetings in Washington will be going on all week with a heavy representation of CEE officials, which could bring the financial markets' attention back to the local story.

Thursday's ECB meeting did not bring much of an impact on CEE FX, but the dovish output in rates widened the interest rate differential in the CZK market, remained flat in Poland and tightened in Hungary. At the same time, a higher EUR/USD should be positive for CEE currencies in general. On the other hand, a further sell-off in equity markets and a renewed deterioration in sentiment yesterday could offset the positive factors. Overall, we are slightly bullish on CEE currencies but still prefer to play relative value within the region with CZK outperforming peers rather than outright direction in EUR-crosses. We further believe CZK pricing is the most mispriced at the moment, and a hawkish CNB will help CZK to further gains.

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