FX Daily: Two holds and a cut today

The Fed revised its dot plot projections to two cuts in 2025, but guidance remains more hawkish than market pricing. We don't expect Powell to get in the way of a dollar recovery if data allows it. Today, the Bank of England and Sweden's Riksbank are widely expected to keep rates on hold, while we see downside risks for the CHF as the SNB may cut another 25bp

Martin Schlegel, Chairman of the Swiss National Bank (SNB), which is expected to cut rates today

USD: Fed helping equities may be a dollar positive

The dollar rallied in the hours leading to the FOMC announcement on the back of growing hawkish bets, which were, however, scaled back after the statement release. Despite the post-FOMC correction, DXY is still trading above Tuesday's close, signalling that there is probably not enough in the Fed communication to build fresh USD shorts. The revision lower in the dot plot, from 25bp to 50bp for 2025, is still more hawkish than market pricing (65bp) and the Fed's greater uncertainty on unemployment also came with warning signals on inflation, effectively arguing against imminent dovish turns. As discussed in our reaction piece, we see no reason to change our call for two 25bp cuts in 2025.

Our bullish dollar views are also broadly unchanged. The reduction in quantitative tightening and Chair Powell's downplaying of recession and long-lasting inflation risk helped US equities, and today's futures also point to an open in the green. The rotation from US to European stocks hugely contributed to EUR/USD strength, and signs that this driver is fading are reinforcing our bearish view on the pair heading into the second quarter.

There are a few important data risk events for the dollar in the coming weeks, where the relatively unchanged Fed pricing will be tested. Barring an immediate deterioration in jobs or core PCE, we still think the start of universal US tariffs on 2 April can bring about fresh support for the greenback.

Today, central bank events in Europe (announcements by the Bank of England, Swiss National Bank and Riksbank) can steer USD crosses while the only data event in the US calendar is the Leading Index. Even if we see a stronger path ahead for the dollar, short-term noise risk remains elevated. For now, support around 103.0 in DXY can be as good as it gets for dollar bulls.

In the CEEMEA FX space, developments in Turkey remain in close focus. The Turkish market is normalising after a massive sell-off yesterday morning triggered by political headlines. TRY erased roughly two-thirds of yesterday's losses after the morning peak in USD/TRY. Finance Minister Simsek reiterated that the implementation of the government's programme and the healthy functioning of the market continue, which brought some relief to the market. We believe that the FX market will return to normal in the days ahead, however, the key will be to monitor the behaviour of local players and potential conversions into FX in the weeks ahead depending on how much yesterday's move shook confidence in TRY.

Francesco Pesole

EUR: Lagarde's speech in focus today

EUR/USD has again failed to make a decisive move to 1.10+ this week, in line with our expectations. As discussed in the section above, we think this FOMC announcement can give some breathing space to dollar-denominated assets and stabilise the greenback by keeping dovish expectations relatively capped. Our call remains that 1.07 is more likely than a break above 1.10 as the next big directional move for EUR/USD as US tariffs regain dominance in April. But the path to a EUR/USD decline won't be a smooth one.

The main event in the eurozone today is ECB President Christine Lagarde's EU Parliament hearing. That could be a marginally positive event for the euro as Lagarde could take the chance to bring the narrative more to a neutral stance. The German fiscal package is, in our view, lifting pressure from the ECB to support the eurozone economy and a 2.25% terminal rate (i.e. only one more cut) is now our base case. We doubt the ECB or Lagarde herself want to close out optionality, but a cautious shift in implicit guidance is likely appropriate already at this stage.

Elsewhere in Europe, the Swiss National Bank is expected to cut rates by 25bp to 0.25% today. While consensus is overwhelmingly pointing to a cut, markets are pricing in 17bp, meaning the Swiss franc should decline on a rate decrease today. The case for a hold is not uncompelling, considering core inflation was a bit higher than expected in January and February and the trade-weighted CHF has depreciated thanks to strong European sentiment. However, SNB data suggests no interventions to weaken the franc after the US election, signalling policymakers' preference for a lower policy rate. We expect a cut today and a move higher in EUR/CHF. However, we are reluctant to see sustained support above the 0.97 level as European sentiment may well deteriorate in April and keep the pair capped below 0.96.

Francesco Pesole

GBP: BoE is a secondary risk event compared to Spring Budget

The Bank of England is widely expected to keep rates on hold today. In our preview, our UK economist highlights how the deterioration in employment sentiment is still to show in official data. That should prevent the BoE from sounding much more dovish given a backdrop of sticky services inflation and wages. This morning, jobs figures for January showed unemployment was unchanged at 4.4% and wage growth was still close to 6%.

Markets aren't pricing in any easing risk today, but February's widely expected rate cut brought about a surprise vote split as former arch-hawk Catherine Mann voted for a larger, 50bp reduction. We expect that she will join perma-dove Swathi Dhingra as the only two members voting for a cut today. The risk is probably that dovish-leaning Alan Taylor joins them to make it a closer 6-3 vote split for a cut. That may be read as a marginally dovish signal and partially weigh on sterling today, but markets seem to be aware that data progress is needed to tilt the balance decisively to the dovish side. Our call remains slightly more dovish than pricing as we expect three more 25bp reductions this year.

Sterling saw some strengthening against the euro yesterday, mostly thanks to its higher beta to global sentiment and some unwinding of EUR/USD longs. The UK government announced plans to scale back social benefits yesterday, and Labour officials have signalled Chancellor Rachel Reaves will not raise taxes at next week's Spring Statement. This means spending cuts, which will be closely scrutinised by gilt investors. Should she announce convincing fiscal rigour measures, the gilt market may not get unnerved, but sterling can still drop on worsened economic expectations.

Francesco Pesole

SEK: Riksbank should be done with cuts

The Riksbank is the other European central bank announcing policy today. Expectations for monetary easing have been almost entirely erased after recent fiscal events in Europe and stronger-than-expected February inflation in Sweden. Our call – detailed in our preview note – is that the Riksbank is at its terminal rate (2.25%) and today's widely expected hold may reinforce the neutral guidance.

The implications for SEK are not huge in the near term. The krona benefitted in February/early March from an ideal combination of booming European sentiment, dovish Fed repricing, hopes of a Ukraine-Russia truce and rotation to SEK-denominated assets. The drop in EUR/SEK looked overdone, and our models show that there is still upside room to recover for the pair despite the recent rebound.

Dovish risks are smaller for the Riksbank than the ECB in our view, and this can help prevent a return to the 11.50 area – which was the anchor level before the big February correction. Still, souring European sentiment as US tariffs kick off in April can smoothen the recovery to 11.20 in EUR/SEK.

More than any potential rate cut by the Riksbank, downside risks for the krona mostly stem from the external environment – in particular any geopolitical risks associated with Russia and the weakening of NATO.

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