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FX Daily: USD/JPY dodges the currency accord bullet

Financial markets are ending the week a little calmer. Traded US equity volatility has dropped back to 'Liberation Day' levels and some modest gains in global stock markets have seen the dollar retrace a fraction of its recent losses. Importantly, it seems that US-Japan trade discussions are not leading to any new agreement to strengthen the yen



Japanese Finance Minister Katsunobu Kato said that currency targets were not discussed in meetings with US counterpart Scott Bessent

USD: Some modest retracement

The dollar is continuing its positive correlation with US equity markets and is edging higher. Investors seem to be taking positively the newsflow that US-China tariffs could be negotiated substantially lower. For example, equities have rallied a little on the news overnight that China could cut their own 125% tariffs on US goods from certain sectors such as healthcare, aviation and manufacturing. Even though Chinese self-interest may well be driving these developments, investors are still welcoming some flexibility here. Equally, investors seemed to ignore bearish headlines from China yesterday that there was no US-China trade dialogue underway and that it would be the US which would have to make the first unilateral move to cut tariffs.

Article | 25 April 2025 1 On the subject of trade talks, US Treasury Secretary Scott Bessent's discussions with Japan and South Korea seem to be going well. Some kind of deal with South Korea could be reached next week. Japan talks are ongoing. In this space, we have mentioned the risk that trade talks could lead to some new (dollar bearish) currency arrangements consistent with the idea of a Mar-a-lago accord. However, Japanese Finance Minister Katsunobu Kato said late yesterday that currency targets were not discussed in meetings with Scott Bessent. USD/JPY has probably fallen quite enough for Washington for the time being and US policymakers prefer some dollar stability and a recovery in equity markets as opposed to another blast of volatility that a new currency accord could unleash. This news may be providing a little support to USD/JPY now, which could edge back to the 145 area before it faces some fresh downside risks next week.

As to the dollar more broadly, it could find a little support as trade tensions calm a little. The next big chapter here will be whether all this volatility has hit real world decisions - especially in the US jobs market. There is plenty of US jobs data released next week and any deterioration here could trigger another round of dollar losses - albeit a more benign dollar decline on the view that the Federal Reserve would be riding to the rescue after all. In terms of Fed pricing, the market now seems comfortable to price the first cut in July - potentially once we all know whether the 90-day pause in Liberation Day tariffs is temporary or longer lasting.

For today, US equities are being called a little higher after some good results from Alphabet. DXY could head back to the 100.25/50 area but stall there. Keep a close eye on the S&P 500, where any close above the 5570/5600 area could suggest we're seeing something more than a bear market correction.

Chris Turner

EUR: 1.1250 is the risk for EUR/USD

The very modest dollar bounce has seen EUR/USD trade a little lower. Over recent weeks we had mentioned that an extreme 5-6% risk premium in the dollar could see EUR/USD briefly trade 1.15/16 - which we saw on Monday - but that risk premium is now starting to come out of the dollar as the mood music on trade improves and the President has backed Fed Chair Jerome Powell. Of course, no one has any confidence about how long these calmer conditions will last. What we would say is that some further modest advance in US equities could drag EUR/USD back to the 1.1250 area and it may be there - 1.1250 - where all the 'structural' dollar sellers could remerge if you believe Washington's destruction of the rules-based international order has permanently damaged the dollar's status as the leading reserve currency.

We have our doubts about the above - and have an end-quarter EUR/USD target at 1.13 - but would revise that higher if the US data fell away more quickly and the Fed had to cut more than the 100-125bp currently priced in. There shouldn't be much market moving data today, so EUR/USD risks a dip under 1.1300 to 1.1250 should US equities continue to creep higher.

Elsewhere, sterling is doing well after another good retail sales figure. EUR/GBP breaking under 0.8520/25 could lead to a much deeper correction.

Chris Turner



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CHF: Let's hear from the SNB today

Swiss National Bank President Martin Schlegel speaks at 10CET today. He delivers the SNB's annual report. Investors will be on the lookout for what he says about interest rates. Markets expect the SNB to cut rates back into negative territory in June - something the central bank is reluctant to do. However, expect Schlegel to keep all the SNB's options open, including rate cuts and heavy FX buying to limit CHF strength. In reality, however, we think the SNB's FX intervention powers are constrained and that EUR/CHF will quickly trade to 0.92 again should financial market volatility pick up this quarter.

Chris Turner

O CEE: Fighting the global story

The end of the week in Central and Eastern Europe should be quiet with an empty calendar. That said, markets in the region have set out to resist the global trend and yesterday we saw market rates rise in Poland and the Czech Republic. Thus, after following the core markets for quite some time, we saw an unusual move in the opposite direction while the core markets continued to rally. We believe both markets are pricing in too much monetary easing due to the impact of the US tariff story. Although we expect rate cuts at both the National Bank of Poland and the Czech National Bank in May, we believe the overall level of rate cuts priced in for this year in both markets is overdone.

Therefore, we believe widening interest rate differentials to core markets is inevitable for these two markets, which should be supportive for FX. Yesterday saw gains across regional currencies including in Hungary, where rates went in the opposite direction. In this case, we would be looking more at global sentiment and the risk-on mood that dominated yesterday. EUR/PLN probably went too far and we see levels more around 4.270 indicated by the rates market. On the other hand, EUR/CZK may have further downside and test 24.900 today, in our view.

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