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FX

FX Daily: USD needs a spark for the next leg lower

Risk sentiment has improved, but oil prices sticking above \$100/bbl are keeping USD afloat. Markets may well require some more convincing headlines on de-escalation to take the dollar meaningfully lower from here. In Norway, we expect a rate hold this morning, but a hawkish shift seems likely



Oil prices staying above \$100/bbl are keeping the dollar afloat

➔ USD: Finding a firmer footing

Risk sentiment has improved over the past 24 hours thanks to some constructive headlines on the Middle East conflict. Iran continues to deny that ceasefire talks with the US are ongoing, but many could be interpreting this as a way to maintain the leverage of high oil prices for as long as possible.

Still, the FX market isn't ready to add another leg of de-escalation trade just yet. After all, oil prices still above \$100/bbl argue against aggressive USD selling, and the dollar is showing signs of better resilience after Monday's selloff. Some confirmation from Iran on the ongoing peace talks remains necessary to see DXY trade back below 99.0, in our view.

On the Fed side, we've heard a few hawkish-leaning comments this week, but with little in the

way of incremental guidance for markets. That confirms our expectation that the FOMC communication impact would wear off quickly – oil prices now remain the only clear driver of rate expectations. We'll hear from Cook, Miran, Jefferson and Barr today, while the US data calendar remains quiet, with only jobless claims in focus today.

Francesco Pesole

➔ **EUR: ECB pricing remains volatile**

EUR/USD eased back below 1.16 yesterday despite good risk sentiment, which could be mirroring some profit-taking on the de-escalation trade. At the same time, EUR/USD did jump on the ECB's surprise hawkishness last week, and may be giving up some of those gains as the dovish repricing in ECB expectations proves steeper than for the Fed when oil prices decline.

Markets have notably scaled back expectations for an April ECB hike, which was priced at a peak 22bp on Monday and is now at 17bp after having fallen to 14bp – closely tracking oil prices.

Yesterday, ECB President Christine Lagarde said the central bank wouldn't be paralysed by hesitation, but we also heard some slight dissent from dovish member Villeroy, who stressed it's too early to discuss the timing of hikes.

Any extra day without tangible de-escalation in the Gulf dents the sustainability of the latest EURUSD rally and argues for a return below 1.150. No key data to watch in the eurozone today, but the ECB's Guindos and Muller are due to speak.

Francesco Pesole

➔ **GBP: BoE speakers in focus**

We'll hear from three Bank of England MPC members today: Sarah Breeden, Alan Taylor and Megan Greene. Greene already spoke yesterday and reiterated her inflation concerns and hawkish spin. Breeden claimed she would have voted for a cut at last week's meeting if it wasn't for the energy price spikes, but was generally hawkish too. Let's see if signs of potential de-escalation make her turn slightly more dovish.

Alan Taylor was the only dove who stayed dovish last week, arguing that the implications for medium-term inflation from temporary energy shocks aren't significant and the bar for hikes is high. But more dovish comments from him won't come as a surprise to markets.

We still see some upside risks for EUR/GBP due to the larger room for dovish repricing in a de-escalation scenario for the GBP curve. A move past 0.870 in the coming weeks remains our baseline.

Francesco Pesole

➔ **NOK: Norges Bank to deliver its hawkish shift**

Norges Bank announces its monetary policy this morning. A hold at 4.0% looks very likely, with only a marginal chance of a hike (around 6bp priced). The new rate projections will be the main focus. The December update still pointed to a rate cut in 2H26, but it seems likely they will revise to show a flat profile at 4.0% or some tightening.

Another new feature of this meeting is the publication of a summary of opinions alongside the statement and the Monetary Policy Report. Recent central bank meetings suggest that hawkish surprises have tended to emerge more from individual members' comments than from the otherwise cautious official statements.

Markets are currently pricing around 25bp of cuts by June, a theme that – as elsewhere – is tightly linked to energy prices. However, Norges Bank's policy is already restrictive and underlying inflation had eased before the war, with core CPI back to around 3.0% in February.

While some hawkish messaging today could keep a June hike notionally on the table, our broader view on Norges Bank remains similar to that of other European central banks. Current pricing still looks too aggressive, with risks skewed clearly to the dovish side.

We retain a short-term 11.10 target in EUR/NOK. A scenario of de-escalation, combined with a rebound in equities and only a gradual retracement in energy prices, would be ideal for the krone and could allow EUR/NOK to break below 11.00 before the summer. For now, we keep our end-2Q target at 10.80.

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THINK economic and financial analysis

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