

## FX Daily: Watch for misplaced optimism

Sentiment is rebounding, perhaps on the view that Trump may focus protectionism on China and speed up trade deals elsewhere. Markets may be erring on the optimistic side though, and we'd be cautious in chasing commodity FX rallies. USD/CNY has been fixed past 7.20: despite the 50% extra tariff threat, this confirms larger CNY devaluations aren't an option



### ⬇ USD: Wild moves continue

Equity volatility has remained very high and was joined by a selloff in bonds yesterday. After a very weak open, US equities spiked into positive territory on the back of an unconfirmed headline suggesting a 90-day pause in tariffs. Trump quickly labelled it as “fake news” and actually threatened an additional 50% tariff on China if Beijing doesn't lift retaliatory duties. The S&P closed only marginally lower after a rollercoaster ride.

The Nikkei has rebounded sharply (around 6%) today, and European/US stock futures are pointing to a positive open today, perhaps on the view that Trump may narrow the scope of protectionism on China whilst turning more lenient to trade negotiations with other countries. Incidentally, additional tariffs tend to have diminishing returns.

Newfound tentative optimism has led to a material rebound overnight in the battered commodity

currencies. Interestingly, AUD and NZD are the best performers in G10 this morning despite the threat of additional tariffs on China. The reason may lie behind the People Bank of China's decision to fix USD/CNY above 7.20: a bearish signal for the yuan that can take some pressure off the proxies. We discuss the CNY situation in detail below.

Despite the breather this morning, commodity currencies face further fundamental pressure from the drop in oil prices. As our commodities strategists note [here](#), downside risks for crude persist. We are therefore reluctant to call for the bottom on highly oil-sensitive Latam currencies. Incidentally, the likes of COP and CLP remain in a vulnerable position due to high current account deficits, which often play as a multiplier of currency losses as FX liquidity dries out in risk-off trading.

Back to the US, we are seeing the dollar re-establishing its role as a safe haven. Incidentally, it appears that yesterday's spike in Treasury yields was still largely beneficial to the greenback. One key downside risk for the dollar is if Treasuries accelerate their selloff in an environment where equities remain pressured. If that happens independently from other safe-haven sovereign bonds (like Germany's bund), that could be an early sign of the "sell America" scenario that can take the dollar substantially lower. We don't seem to be close to that, but it's worth keeping an eye on the UST-Bund 10Y spread (now at 154bp) as well as the USD swap spread (-53bp on the 10Y vs SOFR).

Outside of tariff-related news, we'll see the release of the NFIB Small Business surveys this morning. The Business Optimism gauge spiked after the election but has started to correct in 2025. It's expected to drop back below 100, which would still be well above the 93 average of 2024. The other indices to watch are Hiring Plans – which have often had a good correlation with private payrolls – and Price Plans 3M ahead. The latter jumped to the highest in a year in February and is a good forward-looking indicator for inflation, as small businesses represent around 44% of US GDP.

The past couple of sessions have reinstated some sense of normality in FX correlations. If equities do find a bit of respite, the dollar could remain offered today alongside JPY and CHF. We would however be cautious in chasing big rebounds in high-beta currencies, and especially oil-sensitive currencies. Trump has given little signs of scaling back protectionism, and there is a risk that markets are again erring on the side of optimism.

*Francesco Pesole*

## **EUR: Stable short-term fair value around 1.090**

EUR/USD is trading just below 1.10 after having oscillated in a wide band (1.088-1.104) since the weekend. It's worth noting that the near-term fair value for EUR/USD has remained quite stable just below 1.090 over the past week, and the pair was in stretched overvaluation territory when it spiked to 1.110.

Remember that short-term fair value is highly reliant on the two-year swap rate differential, which is currently around 145bp. As the ECB looks increasingly likely to cut next week while the Fed still hasn't given any signal to justify the four cuts priced by 2025, there is probably a slightly downside-tilted risk for EUR/USD purely from the rate angle.

The euro's high liquidity character continues to shield it from the much bigger volatility that has affected the likes of NOK, SEK and GBP in the past few sessions. The European Union still claims it is ready to discuss tariff-free options with the US, but that will likely take time. In the meantime, the

EU is going ahead with a relatively measured retaliation to US tariffs. It has been reported that 25% tariffs can hit a wide range of US products, but would still fall well short of the \$ amount targeted by the US. If we don't see a turn to a more aggressive response by the EU, the euro could also benefit, especially in the crosses with EM and G10 high beta currencies.

*Francesco Pesole*

## 📉 CNY: Controlled depreciation

USD/CNY edged a little higher today to around 7.33 as the People's Bank of China (PBoC) set its daily fixing above 7.20 for the first time since 2023. Despite another round of tariff threats from Trump, the mood in markets was relatively stable today, showing that further tariff threats at this point will have heavily diminishing returns.

The developments from the past week illustrate very clearly why we have been arguing for the past half year that intentional CNY depreciation to offset tariffs was a heavily flawed argument. If China was truly planning to rely on devaluation to help offset tariffs, CNY would've needed a massive devaluation to do so, and such a move could easily be countered by further tariff hikes from Trump. Furthermore, the damage of yuan devaluation to domestic purchasing power, market sentiment, and China's RMB internationalisation plans would far outweigh the benefit to trade. The benefits of a stronger CNY are further magnified as tariffs could accelerate the trend of Chinese companies expanding outward investment.

Near-term risks remain. Further external shocks, capital outflow, and PBoC easing could add to depreciation pressure. However, the PBoC will likely keep the upside of USDCNY capped, and in the medium term, a rising probability for faster Fed cuts this year, combined with likely aggressive policy support in China, could narrow US-China yield spreads and favour a CNY recovery. We're holding our CNY fluctuation band at 7.00-7.40 for this year.

*Lynn Song (Chief Economist, Greater China)*

## 📉 CEE: Resilient within EM but more weaknesses may come

Hungarian inflation for March will be released this morning, which should show a decline from the peak after an upward surprise in the last two months. We expect a drop from 5.6% to 4.9% YoY, slightly below market expectations, while core inflation should remain strong. Although investors are busy with global markets, we could see some attention this time around. Upside surprises in inflation have been the reason for significant hawkish repricing in Hungary, and not long ago the market was betting on rate hikes. Almost any drop in headline inflation should be a dovish signal, although rate cuts are not on the table. Moreover, the potential wildcard is government price measures that should only be visible in April inflation, but there is some chance for March inflation.

Without much surprise, CEE currencies were under pressure yesterday, as was the rest of the EM space. However, by global comparison, the CEE seems relatively resilient. Although European equities suggested some reversal or stabilisation yesterday, we think CEE will remain rather mixed. As we discussed here yesterday, EUR/HUF is now trending around 410, as indicated by European indices. EUR/PLN is closely following the move in rates, where we also have some local story thanks to a dovish National Bank of Poland, and 4.300 seems like a fair value for now. CZK rates seem to have mostly detached from the Czech National Bank reaction function and some correction in rates in the coming days should keep EUR/CZK below 25.300.

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