

FX Daily: When the second decimal place counts

There will be quite a lot of attention on today's first quarter US core GDP price deflator and what it means for tomorrow's release of the March core PCE figure. Analysts will be looking at the second decimal point on today's release to infer whether tomorrow's number is on consensus at 0.3%, 0.4% or 0.2% MoM. The outcome will have implications for the dollar



➔ USD: Reading through the first quarter data tea leaves

There has been much speculation this week over the outcome of tomorrow's release of the US March core PCE data. Remember this is the Fed's preferred measure of inflation, and there is a strong consensus behind a 0.3% month-on-month reading. Such an outcome would again be too hot for the Fed's disinflation narrative and would keep expectations of the 2024 Fed easing cycle contained. Just 41bp of Fed easing is currently priced.

But today's release of the full first quarter of 2024's core PCE deflator can provide clues for tomorrow's number. This data is released on a quarter-on-quarter annualised basis, and the consensus for today's reading is 3.4% (QoQ annualised). Assuming there are no revisions to the

October-February data (we only find that out on Friday), analysts will today be looking at the first quarter data to extract the March reading. A 3.42% release for today's first quarter data would imply a 0.3% MoM release for tomorrow's March data, whereas a 3.40% figure would imply a 0.2% MoM release tomorrow. Equally, a 3.55% release would imply quite a bad 0.4% MoM figure and probably trigger more bearish flattening of the US yield curve and dollar strength.

In short, today's first quarter core PCE deflator could be quite a market mover. We think the risks from this are pretty symmetric for the dollar. Long dollars is quite a crowded trade, and a fairly sharp sell-off in the dollar earlier this week on the back of the soft US PMI readings served as a reminder that long dollar positions are not bulletproof. Equally, however, signs of a 0.4% MoM reading tomorrow could see Fed easing expectations cut back to just 25bp and send DXY back to 106.50 – and perhaps 107.00. Such an outcome would probably send USD/JPY sharply higher again and heighten intervention risk – see more details on this below.

Chris Turner

➔ EUR: Down, but not out

EUR/USD has found some stability this week on the back of marginally quieter geopolitical conditions and some emerging signs of growth in the eurozone economy. Surprisingly, a June rate cut from the European Central Bank is not fully priced yet (just 73% probability) and the ECB seems to be managing communication carefully as to what happens after the June rate cut.

EUR/USD will be driven by the US data release today. Technically, EUR/USD could stall around current levels (1.0710) and any break above 1.0725/45 today (were the US price data to come in on the soft side) would have to prompt a re-assessment of a near-term 1.05 scenario in EUR/USD.

Elsewhere in the EMEA space today, we have a Central Bank of Turkey rate meeting. Our Chief Economist in Turkey, Muhammet Mercan, thinks that after an unexpectedly strong 500bp rate hike last month, plus a large set of macro-prudential measures, the CBT will prefer to see the impact of the tightening on the inflation outlook and keep its policy rate unchanged at 50% this month.

Chris Turner

➔ GBP: False start on the sell-off

Just as we started to get excited about an important leg lower in sterling earlier this week, Bank of England Chief Economist, Huw Pill, poured cold water over the sterling sell-off. This leaves the market a little confused over the direction of travel for the insiders on the UK MPC committee. We certainly like sterling lower this year as the restrictive 5.25% policy rate gets cut for an economy running a negative output gap. The timing of the sterling sell-off remains a little unclear, however.

We would say the chances of a significant BoE communication shift at the 9 May meeting have been reduced after those comments from Pill. Though, EUR/GBP can probably now trade in a slightly higher 0.8550-0.8650 range.

Chris Turner

📌 JPY: Intervention watch

USD/JPY is now trading above 155 – the level that most had expected to trigger Japanese FX intervention. While we do believe that last week's trilateral meeting of US, Japanese and Korean finance ministers was an important one for the intervention story, [the joint press release](#) was necessary but not sufficient for intervention. The sufficiency has to come from market conditions and one can argue we are not there yet.

For example, when the Bank of Japan first came in to the market to sell \$20bn on a single day in September 2022, one-month USD/JPY implied volatility had been trading in a 12-15% range. And USD/JPY had seen a 20-day rate of change in the 5-8% area. Currently, one-month traded volatility is still sub 10% and the 20-day rate of change is far more modest at closer to 3%. It will therefore be tough for the Japanese to argue they are responding to disorderly FX moves.

Were the US data to point to a 0.4% MoM March core PCE release tomorrow, USD/JPY could spike into the 156/157 and bring us closer to BoJ intervention. But those who argue intervention will not come until closer to 160 do have a point.

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