

Recovering risk appetite weighs on USD

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⬇️ USD: Recovering risk appetite weighing on the dollar

Reports that the US and China are closer to a trade deal (not officially agreed yet in terms of implementation and enforcement, but most of the issues being reportedly resolved) sent the safe haven dollar lower overnight vs most of its G10 peers' barring the Japanese yen and the Swiss franc - two other defensive currencies.

While the recovery in risk appetite is a negative for the dollar, we expect its downside to remain for a while (mainly against G10 FX) given its attractive yield - relative to other currencies in the G10 FX space. The limited scope for a material move in the USD-G10 FX interest rate differential against USD (as other central banks also stroke a more neutral or dovish bias - like the Fed) and the lack of a meaningful growth convergence of the rest of world to the US.

On the US data front, today's March ISM non-manufacturing should be consistent with decent economic activity and its modest pullback being a consequence of the very strong reading in the

previous month.

EUR: Still limited upside

EUR/USD moved further above the 1.1200 level, primarily driven by recovering risk appetite, based on the US-China trade talks report. We expect the 1.1250 resistance to hold today, with the cross upside partly limited by the solid US March ISM non-manufacturing. On the eurozone data front, February retail sales should rise, though less than the jump seen in January with its effect on the euro to be fairly limited.

GBP: May's U-turn

In a meaningful U-turn, UK prime minister Theresa May decided to look for cross-party support for a new Brexit deal. While there is no guarantee that Labour leader Jeremy Corbyn and PM May will agree on terms on the Brexit path, this is a clear shift in PM May's stance towards a softer Brexit. This suggests some modest convergence of EUR/GBP close to the 0.8500 level today. Still, there is the non-negligible probability that these talks fail, and the UK parliament goes back to the indicative votes and or another (fourth) vote on PM May's deal.

PLN: MPC on hold, governor reiterating his forward guidance of flat rates

At today's central bank meeting, the monetary policy committee should keep interest rates unchanged, and our economists expect chairman Glapinski to reiterate his forward guidance of flat rates. Indeed, the softening tone by DM central banks, still, weak eurozone growth and the initial signs of weakness in Poland should lower hawks' propensity to hike interest rates.

The rate decision / MPC bias should be a non-event for EUR/PLN, and the cross is expected to remain within the current consolidation band (4.27-4.335) in April and possibly throughout 2Q19.