

FX: US tariff threat to keep lid on euro

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👆 USD: US tariff threat to keep lid on European FX

The threat by the US administration to impose tariffs on selected EU goods in response to the claimed EU subsidies for Airbus may keep a lid on European FX vs USD today. Yet its negative impact on European currencies should be more limited and less broad-based than the threat of auto tariffs, given that the latter is a larger part of the European economy and there is a bigger inter-linkage among EU countries (ie central and eastern Europe).

In Mexico, March CPI should tick modestly higher from 3.9% to 4% but we expect inflation to move into the 2-4% tolerance band by the end of this quarter, inducing the central bank to cut interest rates no later than 3Q. With the market already pricing in more than four rate cuts in the coming two years, the near-term impact on the Mexican peso should be limited at this point, with MXN benefiting from the rising oil price.



EUR: EUR/USD to stay below 1.1300, limited Brexit progress likely

After breaking the 1.1255 resistance yesterday, EUR/USD should stay below the 1.1300 level today as the threat of US tariffs should keep European FX in check vs the dollar. In the UK, Prime Minister Theresa May is heading to Berlin and Paris today ahead of the summit of EU leaders tomorrow. We don't expect EU leaders to step away from their demands for a longer transition period (ie 9-12 months) rather than the requested extension until June this year.

➔ NOK: Tailwind from the diverging NB and higher oil prices

Norges Bank Governor Øystein Olsen reiterated yesterday the bank's intention to deliver another rate hike in the second half of the year, underlying the divergence between the NB and many other central banks globally which have been turning dovish in recent months. Coupled with rising oil prices this points to more strength in the Norwegian krone, with (a) EUR/NOK likely seriously testing the 9.60 level; (b) NOK/SEK to continue converging towards the 1.10 level.

⬇️ HUF: High inflation to question NBH credibility and be HUF negative

In Hungary, our economists expect headline inflation to jump by 0.5 percentage points to 3.6% year-on-year, mainly on the back of fuel and unprocessed food prices. Core CPI should also edge higher to 3.6% YoY. Such high inflation readings (particularly the core, which is to continue rising into the summer, flirting with the 4% level) should raise questions about whether the current loose NBH policy stance (Bubor at a mere 0.16%) is appropriate. The data will likely be negative for the forint as investors start to doubt the NBH's credibility. Following the short squeeze in HUF positions last Wednesday, we look for EUR/HUF to edge higher and target 329 in the next two months. Today, we look for EUR/HUF to break the 322 level.