

FX: Volatility in free-fall

In the FX market, we're now looking at the lowest volatility levels in five years. Will it continue?



➔ USD: All quiet ahead of tomorrow's Fed

Asset market volatility continues to sink across the board and in the FX market we're now looking at the lowest levels in five years. Clearly, the Federal Reserve's pause and what it means for interest rate volatility is helping, with the Fed having recently been joined by the European Central Bank in a long path for unchanged policy rates. And should the Fed look to slow/stop its balance sheet unwind earlier than expected (we should hear more on this tomorrow) this should only encourage the softer trend for volatility. Assuming Washington does not turn more aggressive on trade in the near future (Europe looks more under threat than China) expect this more benign environment to continue and to allow local stories to win through – the analogy to a stock-picking equity environment. Our take on all the local FX stories can be found in our [March edition of FX talkING](#), where we continue to like selective carry (one of our favourites, MXN/JPY, is working out) and we can see some modest dollar gains against the low yielders – particularly the Japanese yen. Today's US data calendar is light, with focus on Europe. DXY 96.00-97.00.

📈 EUR: ZEW in focus today

Italian BTP:Bund spreads are at the narrowest levels since last September, which partly looks to be a function of what we referenced yesterday – underinvestment or the fear of missing out. Italy has a large weight in key bond indices and underweight positions can prove costly if the benchmark rallies. Clearly there doesn't seem enough bad news in the immediate future to merit a sell-off in BTPs. For today, look out for ZEW readings for both Germany and the eurozone – although Friday's PMI readings should have a larger impact. We favour EUR/USD creeping towards 1.1370/1400 in this low vol environment.

➔ GBP: The slow path to a long delay

The [parliamentary speaker's intervention](#) in the Brexit process probably means that Prime Minister Theresa May will head to the EU council meeting in Brussels (Thurs/Frid) looking for a 'substantial' change in the political declaration - such that she can then resubmit her Withdrawal Deal for a third vote. We may not get to see the series of indicative votes (long delay, softer Brexit, referendum) until next week now. We suspect that sterling stays supported, given that neither side wants a no deal and we look to be on the tortuous path to a long delay. Cable supported at 1.32.

📈 PLN: Strong wage data should prove supportive

Eastern European currencies are enjoying a strong start to the week, with EUR/HUF breaking below 314 yesterday (we have a 3m target of 310). EUR/PLN is sustaining the recent move below 4.30 and today we see Polish wage data for February. Our team in Warsaw is looking for 7.6% year-on-year versus consensus 7.2% and see this being followed by good outcomes for industrial production and retail sales later in the week. The focus will inevitably turn to what's next for the National Bank of Poland, but for the short term we could see EUR/PLN moving to the lower end of its 4.27-4.35 trading range. Please see all our latest CEE FX forecast in [March's FX talkING](#).

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