FX Daily

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18 March 2025

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EUR: Deutschland über alles

Asia overnight

Investor sentiment continued to improve in Asia. BYD unveiled a new EV charging system that helped propel its stock to a record high. Reports of Warren Buffet raising Berkshire Hathaway's stake in Japanese trading houses helped boost Japanese equities. While US retail sales data were mixed, a strong rise in the control-group retail sales also supported investor sentiment. At the time of writing, most Asian bourses were trading higher but S&P 500 futures lower. Investors continue to favour alternative investment locations to the US. The firm US retail sales data led to USD outperformance in Asia with the JPY bearing the brunt of the bounce in the USD. Risk-on trading weighed on the JPY and led to the NZD pacing the USD.

david.forrester@ca-cib.com

EUR: Deutschland über alles

Political and economic developments in Germany remain the key driver for the EUR at present. On the political front, FX investors continue to focus on the progress of the debt brake reform in the German parliament. On the day, the vote on the bill in the Bundestag could thus attract attention. It is widely expected that there would be sufficient number of MPs to support the debt brake reform. A confirmation of that view could thus give only a modest boost to the EUR. Moreover, another vote, in the Bundesrat, looms large on Friday and may force FX investors to keep their powder dry until then.

On the economic front, focus today will be on the German ZEW for March. In particular, FX investors would be looking for any indications that the recent political move towards more aggressive defence and infrastructure spending has revived 'animal spirits' in the German economy. Also today, focus would be on speeches by the ECB's Olli Rehn and José Luis Escrivá. In all, we believe that some positives related to the latest fiscal stimulus push in Germany are in the price of the EUR by now. It would thus take positive data surprises and less dovish ECB speak to given the single currency a meaningful boost in the near term.

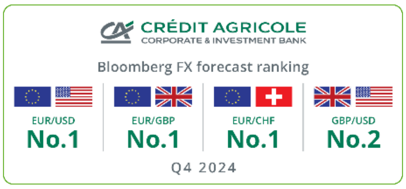
valentin.marinov@ca-cib.com

JPY: BoJ to perform a hawkish hold?

Rengo's first tally of Japan's spring wage negotiations showed a strong rise in wages of 5.46% vs 5.85% last year, maintaining positive real wages growth. Japan's rates market has therefore priced in about a 30% chance of two 25bp rate hikes in 2025. Our Japan economists and investors do not expect a move by the BoJ on Wednesday, however. But with investors looking for another rate hike by June-July, the BoJ will have to perform a hawkish hold tomorrow in order to prevent the JPY from weakening.

While strong spring wage rises are emboldening the BoJ to move towards further rate hikes, we think the central bank will be cautious about signalling further rate hikes this week. BoJ Deputy Governor Shinichi Uchida was recently very clear indicating a neutral stance suggesting that downside risks to US economic growth could prevent another rate hike this year. Admittedly, BoJ Governor Kazuo Ueda has sounded cautiously optimistic about being able to raise rates further but could show the same caution in his press conference. Our Japan economists also note there is significant domestic uncertainty with an Upper House and potentially Lower House election in July. The political uncertainty around this election could also delay further BoJ rate hikes, according to our Japan economists.

We believe the Fed could also be a strong driver of the JPY this week with the central bank's rhetoric and dot-plot forecasts as well as Chair Jerome Powell's press conference potentially pushing back against market pricing for nearly three



Valentin Marinov
Head of G10 FX Strategy
+44 20 7214 5289
valentin.marinov@ca-cib.com

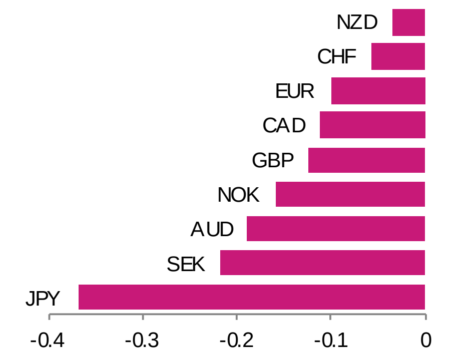
David Forrester
Senior FX Strategist
+65 6439 9826
david.forrester@ca-cib.com

Alexandre Dolci
FX Strategist
+44 20 7214 5064
alexandre.dolci@ca-cib.com

Latest publications

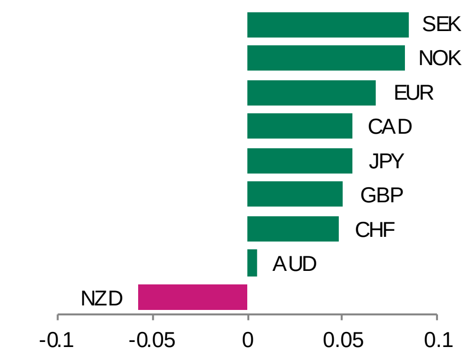
17 March – *FAST FX Model: Still buying NZD/USD*
17 March – *FX Positioning Update: USD sold against everything but the JPY*
14 February – *FX Weekly: USD: no longer smiling*
12 March – *FX Risk Index: "A little disturbance"*
05 March – *FX Volatility Monitor: Coming to realise the world has changed*

Overnight returns (%, vs USD)



Source: Bloomberg, Crédit Agricole CIB

1M implied volatility daily change (net, vs USD)



Source: Bloomberg, Crédit Agricole CIB

25bp rate cuts this year. We also continue to think that if this pricing is correct and the US is potentially heading into recession, then the BoJ rates market pricing is likely wrong.

david.forrester@ca-cib.com

CHF: early indication of late-2024 FX interventions

Thursday's SNB monetary policy decision looms as the main event for the CHF this week, but this morning's 2024 annual report could still offer some early insights on more technical points. The document will in particular report how much FX intervention was done in total throughout the year, which could then be used to infer Q424 data without having to wait for the actual release at the end of the month. FX purchases may have picked up further (from CHF0.7bn in Q324) towards the end of the year, especially as EUR/CHF's decline settled more durably lower than in Q324, although not being as sharp. In the grand scheme of things, any FX buying is likely to remain much milder than in 2020-21, as the central bank has made it clear that interest rates are its primary tool when setting monetary policy. And in any case, EUR/CHF's recent rebound should have already substantially reined in eventual FX buying prospects, while USD/CHF remains some distance off its Q324 lows.

alexandre.dolci@ca-cib.com

CAD: somewhat reflated

USD/CAD came off the 1.44 pivot yesterday, as the tentative rebound in global equity seemingly lifted G10 high-beta FX vs the USD. Canadian PM Mark Carney's visit to France and the UK did not yield anything concrete just yet, as Canada is looking for broader cooperation beyond the US, as shown by the recent review into the scheduled purchases of US fighter jets. In such an influential international context, Canada's CPI release for February is unlikely to shift the needle today, especially as the data will still embed part of the distortions stemming from the temporary sales tax break and should not call into question prospects of inflation settling just above 2% throughout the year. At this stage, the focus may still lie more on activity momentum, as the BoC already warned of a strong loss of traction this quarter, as well as potentially bolder threats to growth than inflation going forward. For USD/CAD, it may be a case of which of the Canadian or US economy shows the first material cracks, in order to settle north or south of the 1.44 mark.

alexandre.dolci@ca-cib.com

Open trade recommendations

	Date	Opening Time	Direction	Entry	Target	Stop	Last/ Close	P&L*
NZD/USD (FAST FX Model)	3/17/2025	09:00 GMT	BUY	0.5774	0.5850	-2.84%	0.5818	0.54%
Long USD vs JPY & CHF	3/10/2025	11:40 GMT	BUY	0.877 / 146.95	7.00%	-3.50%	0.8814 / 149.76	0.74%

*Returns calculated as %VaR with 2% risk allocation per trade

Underlying	Date	Opening Time	Option Type	Strike	Barrier	Spot Entry	Cost	P&L (Portfolio terms)
EURUSD	3/4/2025	13:00 GMT	6M 1x2call ratio	1.06/1.10	1.01/1.1302	1.0550	0.67%	**-0.22%**

*Returns calculated as %VaR with 2% risk allocation per trade

Key events

GMT	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
09:00	EZ	ECB's Rehn Speaks at MNI Event					
09:00	EZ	ECB’s Escrivá Speaks in Madrid					
09:00	IT	Trade Balance	Jan			5980 M	
10:00	GE	**ZEW Sentiment**	Mar			26.00	
10:00	EZ	Trade Balance NSA	Jan			15468 M	
12:30	CA	**CPI YoY**	Feb			1.90%	
12:30	US	Housing Starts	Feb		1370 K	1366 K	
12:30	US	Import Price MoM	Feb		-0.10%	0.30%	
13:15	US	Capacity Utilization	Feb		77.80%	77.77%	
13:15	US	Industrial Production MoM	Feb		0.30%	0.51%	
21:45	NZ	Current Account Bal.	4Q			-6.40%	
23:30	AU	Westpac Leading Index	Feb			0.12%	
23:50	JN	Machine Orders YoY	Jan			4.30%	
23:50	JN	Trade Balance	Feb			-2737 B	
04:30	JN	Industrial Production YoY	Jan			2.60%	
04:30	JN	Capacity Utilization	Jan			-0.19%	

Source: Bloomberg, Crédit Agricole CIB

Global Markets Research contact details

Jean-François Paren Head of Global Markets Research +33 1 41 89 33 95

	Asia (Hong Kong, Singapore & Tokyo)		Europe (London & Paris)		Americas (New York)
Macro Strategy	Takuji Aida Chief Economist Japan +81 3 4580 5360	Ken Matsumoto Macro Strategist Japan +81 3 4580 5337	**Louis Harreau** **Head of Developed Markets Macro & Strategy** **+33 1 41 89 98 95**	Valentin Giust Global Macro Strategist +33 1 41 89 30 01	Nicholas Van Ness ** US Economist +1 212 261 7601
Interest Rates			**Bert Lourenco** **Head of Rates Research** **+44 (0) 20 7214 6474** Guillaume Martin Interest Rates Strategist +33 1 41 89 37 66 Riccardo Lamia Interest Rates Strategist +33 1 41 89 63 83	Jean-François Perrin Senior Inflation Strategist +33 1 41 89 73 49 Matthias Loise Inflation Strategist +33 1 41 89 20 06	Alex Li ** Head of US Rates Strategy +1 212 261 3950
Emerging Markets	Xiaojia Zhi Chief China Economist Head of Research, Asia ex-Japan +852 2826 5725 Eddie Cheung CFA Senior Emerging Market Strategist +852 2826 1553	Jeffrey Zhang Emerging Market Strategist +852 2826 5749 Yeon Jin Kim Emerging Market Analyst +852 2826 5756	**Sébastien Barbé** **Head of Emerging Market Research & Strategy** **+33 1 41 89 15 97**		Olga Yangol ** Head of Emerging Market Research & Strategy, Americas +1 212 261 3953
Foreign Exchange	David Forrester Senior FX Strategist +65 6439 9826		**Valentin Marinov** **Head of G10 FX Research & Strategy** **+44 20 7214 5289**	Alexandre Dolci FX Strategist +44 20 7214 5064	
Quant Research			Alexandre Borel Data Scientist +33 1 57 87 34 27		

*** employee(s) of Crédit Agricole Securities (USA), Inc.*

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Valentin Marinov, David Forrester, Alexandre Dolci

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MiFID II contact details

Andrew Taylor MiFID II Research contact andrew.taylor@ca-cib.com	Please send your questions on MiFID II to: research.mifid2@ca-cib.com

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