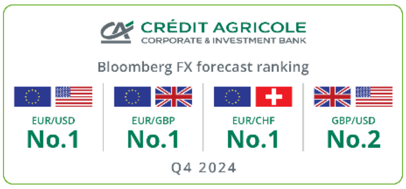

USD: collateral damage

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Asia overnight

Markets remain on tenterhooks with US equities resuming their sell-off and Russian President Vladimir Putin rejecting the ceasefire offered by US President Donald Trump. Investors will now be eyeing how Trump reacts, if he decides to tighten sanctions against Russia, and any counter-reaction by Putin. Investors are also nervous ahead of the FOMC meeting later today. The rotation out of US stocks and into European & Asian stocks continues to support sentiment in Asia, however. At the time of writing, Asian bourses were trading mixed and S&P 500 futures modestly higher. The JPY was the underperforming G10 currency during the Asian session. The BoJ kept its policy rate unchanged as widely expected and maintained a modest tightening bias. The central bank also expressed some concern about foreign trade policy and global growth. The USD was a modest outperformer during the Asian session.

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USD: collateral damage

The USD has recently become one of the most prominent victims of the demise of the so-called Trump trade. Investors have been sharply reassessing their expectations of the economic impact of President Donald Trump's unorthodox mix of trade protectionism, fiscal austerity and immigration policies as well as his desire to 'upend the global world order' to the point of antagonising the US's Western allies. In particular, investors have started to view Trump's policies as US growth-negative at the margin and have front-loaded their Fed rate cut expectations as a result. This has eroded the USD's relative rate appeal across the board. The USD's downfall can also be linked to portfolio rebalancing out of the US equity markets and into European & Asian stocks.

On the day, focus will be on the outcome of the March FOMC meeting. Given that the Fed is widely expected to keep policy rates unchanged, its updated forward guidance, median dot plot and economic forecasts (SEP) would be key drivers of FX market action. At the time of writing, ahead of the meeting, US rates markets are pricing in c.60bp of cuts by the end of 2025 – implying a more aggressive easing than expected by us (and signalled by the Fed's own December dot plot). Further out, US rates markets have largely converged to the FOMC's latest policy outlook and thus have become quite dovish, in our own view.

The divergence between our longer-term views and the markets is driven by our expectation that the positive inflation impact of Trump's policy mix would more than outweigh its growth-negative impact. We also believe that Fed Chair Jerome Powell could largely echo our assessment. The updated Fed dot plot should further 'stick' to the view of only two rate cuts for the remainder of this year but could potentially signal a slightly shallower monetary policy easing path for the years beyond 2025. In all, we expect the Fed to deliver a modest hawkish surprise that could give the USD rate appeal and the currency a boost. Tariff headlines and the latest developments surrounding a potential ceasefire in Ukraine could impact the ebb & flow of global risk sentiment and thus the near-term outlook for the USD.

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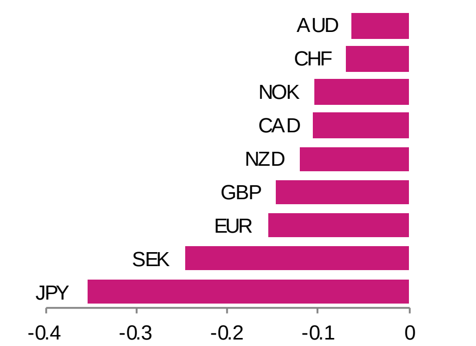
JPY: BoJ on hold, but for how long?

The BoJ left its policy rate unchanged as widely expected. It was a quick and unanimous decision by the Board. The BoJ released its policy decision much earlier than usual. The BoJ remains modestly hawkish pointing to a virtuous cycle between wages and prices continuing to build that will keep inflation at its target despite the waning impact of the earlier weakening in the JPY and higher import prices. High rice prices will also keep inflation elevated. The BoJ believes the economy is growing above potential and this along with labour shortages will keep wages and prices rising. Rengo's first tally from the spring wage negotiations of

Latest publications

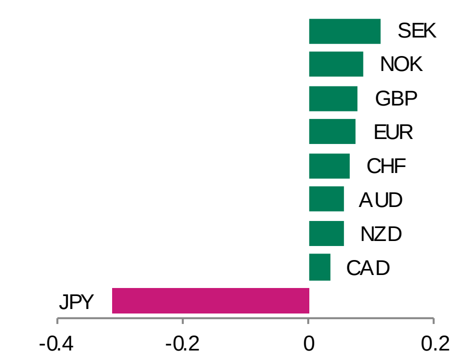
18 March – FX Fair Value Update: EUR/USD and NZD/USD trading in line with long-term fair values;
17 March – FAST FX Model: Still buying NZD/USD
17 March – FX Positioning Update: USD sold against everything but the JPY
14 February – FX Weekly: USD: no longer smiling
12 March – FX Risk Index: "A little disturbance"

Overnight returns (%, vs USD)



Source: Bloomberg, Crédit Agricole CIB

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



Source: Bloomberg, Crédit Agricole CIB

5.46% has reinforced the BoJ's view as it keeps real wages growth firmly in positive territory. The central bank observes that consumption remains firm despite higher prices.

The BoJ does not appear to be in a rush to raise rates again, however. While it continues to be confident the economy will evolve in line with its forecasts, a trigger for further rate hikes, the central bank has reinserted a paragraph outlining the risks to the economic outlook as well as businesses' wage and price setting behaviours. When the BoJ hiked rates in January, this paragraph was excluded. The BoJ adds to this paragraph the increased uncertainty generated by foreign trade policies. The BoJ maintains that the exchange rate could have a larger effect on prices than in the past. We continue to think the BoJ's comfort zone for USD/JPY is the 145-155 region where falls (rises) in the exchange to below (above) this range would lead to the BoJ deceleration (acceleration) in its rate normalisation.

There is not much in the BoJ's statement to move the FX markets as the central bank maintains that the economy is evolving as expected, which locks in its modest tightening bias. The BoJ's acknowledgement of the risk to its outlook posed by overseas trade policies and growth also gives the central bank flexibility over when the next rate hike will be. Our Japan economists think US President Donald Trump's tariffs as well as slowing US economic growth will substantially delay the next rate hike.

USD/JPY remains trapped below the critical resistance at 150. A close above 150 would break the YTD downward trend in the exchange rate and establish a new 150-152 trading range. Investors will watch BoJ Governor Kazuo Ueda's press conference later today to see if he expands on the central bank's concerns about US trade policies and growth. Ueda has typically disappointed hawks in his past few press conferences. The USD has made the most ground against the JPY over the past week.

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AUD: labouring away

AUD/USD has a nearly 4M range of c.0.62-0.64. The strongest driver of the exchange rate remains the Australian-US short-term rates differential, which could fluctuate in the coming 24 hours and determine if the topside of this range can be broken. First up will be the FOMC meeting. AUD/USD is likely to face downward pressure on this front, in our view. Admittedly, the markets are not looking for many fireworks around the FOMC meeting, but we see potential for a modest hawkish surprise to support the USD.

Next up will be the Australian labour market data, which carries some upside risks. While falling job advertisements and business employment intentions suggest slower jobs growth, February tends to be a volatile month for the data. Post the pandemic, Australians have taken to enjoying their summer holidays for longer and so are returning to work later, often in February rather than January. While jobs are plentiful, this has meant people starting new jobs and looking for work in February rather than January and boosting employment as well as labour supply. The ABS data is yet to catch up with this shift in seasonality, and post the pandemic average employment growth in February has been over 85k jobs vs a bit below 40k jobs for all months. Importantly, labour supply should also be plentiful in February given that people start work or start looking for work then, which should prevent a large dip in the unemployment rate. Labour force participation has also been recording stronger than usual rises in February post the pandemic.

With the Australian rates market pricing in over 60bp worth of rate cuts by the RBA in 2025, a strong employment number would likely see reduction in this pricing and boost he AUD/USD. But we advise investors to focus on the unemployment rate, which may not budge due to higher labour force participation. The RBA looks for the unemployment rate to average 4.2% in H125 vs the current rate of 4.1%.

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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%	0.5812	0.47%
Long USD vs JPY & CHF	3/10/2025	11:40 GMT	BUY	0.877 / 146.95	7.00%	-3.50%	0.8773 / 149.8	0.63%

*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%	**-0.35%**

*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
10:00	EZ	CPI YoY	Feb			2.40%	
11:30	EZ	ECB's Centeno Speaks at Financial Education Event in Lisbon					
12:00	EZ	ECB's Guindos Speaks					
13:00	EZ	ECB's Villeroy Speaks in Paris					
13:00	EZ	ECB's Elderson Speaks in London					
18:00	US	**Fed Funds Target**	Mar		4.50%	4.50%	
20:00	US	TIC	Jan			71.99 B	
21:45	NZ	GDP	4Q			-1.00%	
00:30	AU	**Unemployment**	Feb			4.10%	

Source: Bloomberg, Crédit Agricole CIB

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