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G10 FX

EUR

A noisier week where we made less straight-line progress despite ultimately reinforcing recent drivers. Given the speed and scale of the repricing in currency markets, I guess it shouldn't be too much of a surprise, this pause for thought. On the European side, despite the intra-week back and forth, it looks like the new German fiscal plans should be voted through this week, and despite noise, some sort of ceasefire in Ukraine can potentially be reached (Trump speaking to Putin tomorrow apparently). On the US side, the data continues to look soft, with confidence given policy uncertainty hit particularly hard (Michigan on Friday). Retail sales will be another test today. But with tariffs still looming with the April 2nd deadline, the euphoria on Europe being fully digested, inflation still not wholly playing ball, and a Fed that will likely still want to see more before being willing to commit to any further easing, maybe progress comes less easily from here.

Overall, sticking with the overall portfolio setup: long euros versus the dollar and sterling, short USDJPY, and long USDZAR. I still think the US economy faces plenty of uncertainty, and despite the bounce in equities on Friday as the government avoided a shutdown, the data should continue to struggle. And whilst spillover globally can't be a positive, this questioning of a multiyear period of exceptionalism is proving to be a counterweight to the traditional dollar smile thesis, so long euros and yen continue to make sense. On Japan, the GPIF headlines were a disappointment (if confirmed) last week, so I have trimmed to a smaller core; however, for the aforementioned reasons, I would look to be scaling back into cash closer to 150 if seen. Still really like EURGBP higher; the data out of the UK on Friday was quite poor as the private sector struggles. Reeves will have her work cut out to present anything likeable at the end of the month, and the relative fiscal paths should keep the cross moving higher. The budget debacle in South Africa may end up in an uncomfortable truce at some point, yet with the uncertainty, I think the rand trades too well. If things do get really bumpy globally, I think the pair represents a good hedge on dollar shorts elsewhere in the portfolio.

A key week here given the recent rerating of European prospects linked to expedited fiscal activism in Germany. Votes in both the Bundestag (Tuesday) and Bundesrat (Friday) are likely to pass according to local experts. However, last week the euro was capped into strong resistance; I guess the market wants to make sure delivery is ensured (at least the deal agreed with the Greens didn't alter the scale of additional spending, just the redirection of some of the funds). Plus, US yields stabilised, and tariff headlines continue to rumble on with noise still pretty threatening for April 2nd. Staying long overall, although I have reduced some straight EURUSD until we break above 1.0950 (will chase again above). On the downside, I think the market will be disappointed if we break last week's lows in the 1.0800/10 area, with the 200-day now key support at 1.0720.

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GBP

Our belief in German politics was rewarded on Friday with a breakthrough in negotiations with the Greens, leaving this theme scope to keep bubbling along with the myriad of other strands the market is contending with. Maybe not a surprise then that the UK's woes are way down the pecking order, as softer headline GDP growth data was even softer under the hood given the government spending breakdown, and things are sounding difficult for the Labour Party, which leads me to believe that the OBR is starting to remove their head from the sand – we get to see the extent of this next Wednesday. In the meantime, we have the LFS on Thursday ahead of the BoE, which will almost certainly remain on hold. 7-2 should be the vote; it will be interesting to see if Dhingra and Mann moderate to a 25bp vote, but I am not sure this will be of consequence to the market as it is the temperature of the rest of the committee that is key. It does feel like it has shifted more hawkish recently (from Ramsden in particular), so any more votes for a cut will be seized upon, but I struggle to see that happening for now as the message will remain quarterly cuts are the baseline with risks on either side. 0.8350/0.8450 for the cross, 1.2860/1.3050 for cable – stay long EURGBP.

JPY

We get both CBs this week with the Fed SEP likely to evolve in a more stagflationary direction alongside the recent sentiment indicators from the US, not least the UMich print on Friday. The resulting stock reaction (closed up 2%) probably shows we might be a little oversold and need to see the hard data start to roll to extend further nervousness (indeed we saw S&P minis back into neutral on the RSIs), we have sales data today. Meanwhile, there is absolutely nothing priced for this BoJ and with only 4bp priced for the next Quarterly Outlook meeting in April, there is not much expectation for any signalling either. Focus will remain on conditions for the next hike, and I think language will remain pretty similar as price trends evolve in line with expectations with fears of policy uncertainty and volatile markets. No change in stance here, the GPIF disappointment has left vols under pressure and USDJPY meandering here as yields look a little stuck (US 10yr around 4.30%). Little change in stance here, keeping modest core shorts in place looking for opportunities to add on a more meaningful correction above 150, the recent build-up in SHFs positioning still concerns us, and we would like to see this unwind more as it is net flat since the GPIF news. 147.00/20 remains support while 149.25/30 is interim resistance ahead of 151.00/30. Sales at 12.30 GMT.

CHF

Positive news on Friday after an agreement looked to be reached with the Greens, and whilst EURCHF did make new highs at 0.96635, the lack of follow-through is frustrating. The headwinds of increased chances of a US recession, stock sell-off, and tariff threat look to be keeping rallies in EURCHF capped, and this uncertainty is ultimately keeping risk appetite low to chase moves. Medium term, EURCHF should be higher on the back of the large German fiscal spend, and it's interesting to see our research revise up their forecast to 0.98 by year-end. We get the SNB this week too, where a 25bps cut is expected, although focus remains on their reaction to the recent upside prints to inflation. We see the market as long CHF, particularly the systematic community who have interestingly started to sell CHF the last three days. I remain looking to buy a dip and would re-enter into longs closer to 0.9575/80 support.

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AUD

NZD

A stronger session for both the Aussie and Kiwi on Friday, but price action in the antipodeans remains erratic, with both currencies struggling to keep up with the move in the DXY. We continue to run short of dollars, mainly versus euros, but remain tempted to enter AUD longs pending better employment data out of Australia later in the week. I am, however, somewhat surprised at the recent Kiwi outperformance, which continues to push AUDNZD into new YTD lows this morning. Flow-wise, we saw better sellers of Aussie again on Friday, whereas flows in Kiwi were muted.

CAD

Been away for a couple of weeks, but price action in USDCAD remains disappointing nonetheless, with the pair once again selling off towards 1.4360 as the desk continues to see better demand for CAD, mainly from RM and HF accounts on Friday. The view on CAD remains bearish, and I continue to run short of CAD, mainly versus euro longs but also via topside, and will be looking to add further on a move down to 1.4300 in USDCAD. Fundamentally, the US slowdown combined with tariff uncertainty should continue to weigh on the Canadian economy, which should see the loonie underperform, especially on crosses.

SEK

NOK

Last week, EURSEK corrected higher following multiple rejections of the 10.91/92 level, and we used the bounce to reinstate shorts. Keeping overall exposure here lighter as we are cautious of the outlook for risk assets amidst the equity selloff and growing trade tensions. That said, Germany's fiscal plans plus the likelihood of increased defence spending domestically should support the Swedish economy alongside lower rates, fiscal support, and real wage growth, which has seen our economics team upgrading our 2025 and 2026 growth forecasts for Sweden. The unemployment rate, although off the January highs, is a source of concern for SEK bulls and the Riksbank, although we are finding comfort in the fact that increased labour supply explains much of the jump. NOK outperformed last week following a large upside surprise in CPI, with the rally continuing this morning, taking EURNOK to a fresh YTD low at 11.4970. In a similar fashion to Sweden, we have revised our Norway growth forecast higher on expectations of boosted defence spending domestically and abroad, although the growth impact will be relatively smaller. We don’t have a strong view on NOK while the outlook for oil and risk assets amid growing trade uncertainty and dampening US expectations remains murky. Flow-wise, we saw systematic supply of USDNOK on Friday while other account types were quiet. Looking at the week ahead, the Riksbank meets on Thursday, where they are expected to be on hold, with the Norway Regional Network Survey on the same day. 11.49/50 should provide support in EURNOK followed by 11.37/38, while 11.69/11.7250, which houses all the moving averages, is the big level above. 10.91/92 and 11.10/12 are the levels in EURSEK.

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Completed 17 Mar 2025 09:18 AM GMT

Disseminated 17 Mar 2025 09:18 AM GMT