中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

What's next for the USD, EUR and AUD?

Video highlights:

- Market risk-aversion seems to be cooling down, and the USD's rally appears to have paused for breath. However, as long as the Strait of Hormuz remains disrupted, the risk of rising oil prices and US inflation persists, which limits the Fed's room to cut rates. Markets currently expect the Fed to maintain interest rates between 3.5% and 3.75% in the April meeting, with only one 25 bps cut expected by year-end. Attention should be paid to Chairman Jerome Powell's final meeting for any policy guidance, as this will significantly influence market rate expectations and the USD.

- Fed Chairman Powell's term concludes on May 15, and the Senate is currently reviewing the nomination of his successor, Kevin Warsh. While Warsh is viewed as relatively hawkish—favoring quantitative tightening and currency stability—investors are simultaneously concerned that his close ties to the White House might compromise the Fed's independence, potentially raising the political risk premium for the USD. US will release March Core PCE data alongside a series of economic indicators, including Q1 GDP in 30April, these data will likely increase USD volatility. Resistance level for the USD can be referenced at 100, with support level at 97.5.

- Oil prices have strengthened due to Middle East tensions since Mar., increasing inflationary pressure on Europe as an energy importer. In its Mar macroeconomic forecast, the ECB issued a warning that rebounding energy prices could push headline inflation to a peak of around 3.1% in the Q2 2026. Although March core inflation edged down to 2.3%, the rise in overall prices gives the ECB room to hike. Interest rate futures indicate that while the ECB will likely hold rates at 2% in April, the probability of a 25bps hike in June has risen to 70%. However, that despite the pressure on the ECB to hike, the interest rate differential still favors the USD. Combined with sluggish economic growth in the Eurozone and lingering Middle East uncertainty, EUR remains under pressure. Support level for EURUSD can be referenced at 1.16.

- Moreover, given the robust Australian labor market and persistently high inflation, the market is almost certain of a 25 bps rate hike, bringing the rate to 4.35% of RBA. As most global central banks opt to hold rates steady, the AUD's yield advantage and recovering commodity prices provide strong fundamental support. If AUDUSD breaks above the April 17 high of 0.7222, it may test 0.75 level. However, we must remain wary of the unpredictable situation in the Middle East; any spike in risk-aversion could increase AUD volatility. Short-term support is seen at the 50-day moving average 0.705 level.

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