

As the dust settles the dollar weakens

As risk appetite stabilises and global equity markets grind higher, global currencies have started to recover gently from the previous week's losses against the US dollar



Source: iStock

USD: Weakness in play, but not so straightforward for EM FX

While G10 FX is up against USD across the board (even the safe-haven Japanese yen, where the recent decline in correlation with equity markets is cushioning the yen during recoveries in risk assets), we note that the emerging market FX recovery may not be as straightforward. As long as US Treasury yields remain high or grind even higher (towards the 3% level for the 10y UST) we expect the scope for a rebound in EM FX high yielders with external funding needs (characteristics best embodied by TRY) to be rather limited. This is because the higher USD funding costs will offset the stabilisation in risk appetite.

EUR: Justified gentle recovery

EUR/USD is back above the 1.2300 level as the dollar strength starts to fade. As long as equity markets remain stable (a positive factor for the pro-cyclical EUR) and the oil price moves higher (a positive for EUR via limited scope of the downward revision of the CPI forecast within the March ECB staff projections – [see ECB's Sisyphian task](#)), EUR/USD downside seems very limited. In Norway, 1Q18 consumer confidence improved further this morning (reaching the highest level since 2Q13).

Coupled with the stabilising risk appetite, recovering equity markets and the rising oil price, we look for EUR/NOK to grind below 9.70.

GBP: Sticky inflation to be modestly GBP supportive today

Our economists expect the January UK headline and core inflation readings to remain sticky (2.9% and 2.6% respectively). This should reinforce the Bank of England's latest inflation concerns and be GBP supportive to the extent to which it will keep the odds of May rate hike in place. That said, the BoE hawkish message is contingent on the favourable Brexit negotiation/transition deal, meaning that the market is unlikely to get ahead of itself based on today's reading. The scope for EUR/GBP to move materially away from 0.8900 is limited today.

HUF: Decelerating CPI to modestly weigh on HUF

Our economists expect yet another deceleration in the Hungarian CPI, with the January reading expected to print below 2%. This below-consensus reading should give further credibility to the current central bank guidance for Bubor to remain at the current level at least until early 2019. With the market pricing in more than a 20bp rise in Bubor this year, today's inflation reading should provide further room for re-pricing and modestly weigh on HUF. EUR/HUF to move above the 312.00 level.

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