Bad week for EUR/USD might not be over

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USD: Dollar strength vs G10 low yielders to continue

The focus turns to the US labour market report today. While payrolls growth will likely slow from the unexpected 304k surge in January, there is upside potential for wage growth as the tightness in the jobs market fuels inflation-busting pay awards. Our economists look for 3.5% year-on-year wage growth in February, supporting the view of one more Federal Reserve rate hike this year. We see G10 FX low yielders (euro, Japanese yen and Swedish krona) as vulnerable vs the US dollar over the coming months as the neutral stance of their respective central banks (yesterday's ECB meeting being a case in point) underscores monetary policy divergence vis-a-vis the Fed.

EUR: Another punch from the ECB, with SEK feeling the negative spillover

The ECB delivered a dovish surprise yesterday, announcing the new round of targeted longer-term refinancing operations and extending its forward guidance for unchanged rates until end-2019. While this shift should not lead to a pronounced collapse in EUR/USD given that (a) the dovish bias was expected; (b) market pricing of interest rate hikes was very subdued prior to the meeting, the risks to EUR/USD are clearly skewed to the downside. As per EUR: Another punch from the ECB to the euro, we look for EUR/USD to converge to 1.1000 within months as we expect the Fed to hike in 3Q while the dovish ECB won't provide a catalyst for the euro to strengthen. EUR/USD may test 1.1150 today in response to solid US wage data. The extension of the ECB's forward rate guidance should further increase the bar for the Riksbank to hike later this year (a hike which has already been highly questionable) and underscores our negative view on the krona. We look for EUR/SEK to break above the post-crisis high of 10.7291 in 2Q.

GBP: Limited upside ahead of the meaningful vote next Tuesday

EUR/GBP is testing 0.8550 on the back of the dovish ECB and reports that new terms on the Irish backstop were offered by the EU. Yet, on the latter we still see a high bar for an agreement between the UK and the EU to be reached and even if there is a deal, it remains questionable whether it will be passed in UK Parliament. EUR/GBP to remain above 0.8500 ahead of the meaningful vote next Tuesday.

HUF: Rising core CPI the last ingredient for NBH policy normalization

We expect both headline and core Hungarian CPI to accelerate today and the latter to reach 3.4% YoY. With the National Bank of Hungary focused on core prices, CPI further above the 3% target should all but cement the case for Bubor normalisation – to be started at the 26 March meeting. Importantly, we don't expect the ECB's dovish stance to affect the NBH reaction function at this point. As core CPI is heading higher, the central bank doesn't have room to postpone the start of Bubor normalisation. The dovish ECB vs hawkish NBH should lead to a further EUR/HUF decline, with the cross moving closer to the 315.00 level today.