EUR: Weakness overdone

After recent selling, we think the euro is now about 3.5% undervalued versus the dollar

USD: A pause in dollar gains and a respite for EM FX

After meaningful gains yesterday, we expect the dollar rally to pause today and emerging market FX to get some breathing space given the mix of (a) a tentative agreement among Congressional negotiators to avoid another US government shutdown (with President Trump obtaining funding for the border wall, albeit lower than expected: $1.375 billion vs $5.7 billion); (b) signs that the US-China trade dispute may be resolved without a further imposition of tariffs (following White House adviser Kellyann Conway's comments that President Trump wants to meet President Xi "very soon"). All this suggests some respite for EM FX which has been under pressure this month. Yet, in our view this decline was more a function of investors booking profits after a strong January rather than a fundamental shift in view on this currency segment. The EM FX universe remains meaningfully undervalued while the cautious Federal Reserve is providing a tailwind. As long as there is no imminent escalation of the trade conflict, we don't expect to see meaningful, long-lasting EM FX losses.

EUR: The euro weakness looks exaggerated now

EUR/USD broke below the 1.1300 level in response to broad-based US dollar strength yesterday. We note that the cross currently looks very cheap based on our financial fair value model, being

3.5% undervalued. While the catalysts for a material euro rebound don't seem to be in place, the misvaluation suggests that a further decline in the cross is unlikely in the absence of risk events such as trade wars, US tariffs on eurozone car imports or negative Brexit news. Should EUR/USD stabilise around current levels, this also suggests less downside to central and eastern Europe FX, which has been feeling the negative spillover from the falling EUR/USD.

INR: Rising inflation at odds with the RBI rate cut last week

Today's India January CPI will be viewed in the context of the Reserve Bank of India's latest move to cut interest rates by 25 basis points. While inflation is unlikely to hit the RBI's 4% policy mid-point anytime soon, our economists expect underlying pressure to remain upward. As such, we consider the decision to cut interest rates last week as premature (see RBI Review) and look for further USD/INR upside.

HUF: Above target core CPI to translate into HUF strength

We look for strength in the Hungarian forint today, prompted by January's inflation data. The main focus is on the core CPI ex-tax, as this has been communicated by the National Bank of Hungary as the key indicator to watch. Our economists look for a strong reading of 3.0% year-on-year (to be followed by 3.2% in February). This should prompt the NBH to start the Bubor normalisation process in March. With the speculative community still being net short HUF, we look for more HUF strength. In our view, were it not for the recent soft stream of eurozone data that's weighed on EUR/USD and central and eastern European FX, EUR/HUF would have likely been trading below 315.00 after today's inflation.