FX Daily: A busy day in the CEE region

Look out for Russia's central bank rate decision, inflation numbers from the Czech Republic and Hungary and Poland's first-quarter GDP release today

Source: Shutterstock

USD: Dollar ends the week in consolidative mood

It looks to be a quiet end to the week for the dollar, with little fresh insights into the US overheating debate (though we do see a University Of Michigan inflation expectations survey later today).

Fed Chair Powell's speech on Wednesday seems to have calmed any expectations of early Fed withdrawal of stimulus and other central banks around the world are still playing catch-up with lower rates. Mexico's central bank cut rates by 25 basis points last night to 4.00% and seemingly promised more (50bp more easing now expected over the next three months). Yet real rates should still stay marginally positive and prevent much of an MXN sell-off.

For today, Yellen & Powell participate in a virtual G7 meeting of finance ministries, where the focus is on IMF issuing fresh SDRs to help low-income countries.

Monday's US holiday and China New Year makes for quiet trading. DXY to trade 90.30-90.60.

EUR: EUR/USD steady, but lots going on in CEE

35 pip ranges in EUR/USD are a rare event but could be repeated today. Nonetheless, it is a busy day in CEE.

Russia announces interest rates, the Czech Republic and Hungary release inflation numbers and Poland reports 1Q GDP. On Russia, none polled expect any more central bank cuts and relatively high real rates can keep the RUB supported.

Any downside surprise in Czech or upside surprise in Hungarian CPI today could hit local currencies given an already hawkish central bank pricing in the former and concerns over negative real rates in the latter.

GBP: 4Q20 GDP slightly better than expected

It looks like government spending drove a slightly better than expected 4Q20 GDP (+1.0% QoQ vs +0.5% expected).

Perhaps the hole the UK has to climb out of is slightly smaller than expected.

Expect GBP to stay supported on dips.

KWD: Budget disagreement starting to hit the forwards

As we discussed in April last year, pressure on the pegged/managed FX regimes in the GCC region is usually felt through the FX forwards. Despite oil prices now on the rise, pressure on the Kuwaiti Dinar (KWD) forwards is now starting to stick out. 12-month USD/KWD forwards have now widened to +310pips - the widest since mid-March 2020 when Brent was trading below $30/bl.

Hitting the dinar forwards has been a cash crunch, whereby the parliament is refusing to approve new debt issuance to finance its planned $40bn budget deficit for the coming fiscal year. And the state's recourse to liquidity by placing assets with the local sovereign wealth fund seems to have run its course.

Despite the forwards taking the strain, Kuwait's sovereign CDS have not budged since Kuwait has the world's fifth-largest wealth fund (assets over $500bn). This issue seems one then of politics, not debt sustainability, and we suspect investors would return to the KWD forwards were they to move near the +400pip level.

GCC currency pegs: Unprecedented times, unprecedented measures?

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com