

FX Daily: US dollar a little offered post tariff story

The dollar is staying a little offered despite Donald Trump rebutting a report that his tariff policies could be more selective. We're also getting closer to some large-scale FX intervention from Japanese authorities. For today, look out for some firm US activity data and another round of sticky European inflation. The dollar could correct a little further – but not by much



The Canadian dollar has reacted positively to Justin Trudeau's departure and is finding a bit more support this morning

➔ USD: Market positioning dominates

Monday saw a pick-up in FX volatility on the back of a [Washington Post report](#) – quickly rejected by Trump – that incoming US tariff policy could be more selective than first feared.

The dollar's failure to recover all its intra-day losses on Monday likely indicates two factors: first, the market had been heavily favouring the dollar following a nearly continuous three-month rally; second, a view that there is no smoke without fire and that the contents of that *Washington Post* report sounded sensible. It is unlikely investors will want to consider actively selling the dollar ahead of Trump's inauguration on 20 January on speculation over softer tariffs – but we could see a little more rebalancing of FX positioning and a little more dollar consolidation in the interim.

Two further points worth mentioning about the dollar. The first is that we are approaching levels in

USD/JPY where Japanese authorities could undertake large-scale FX intervention. In early July this year, Japan sold \$35bn over two days with USD/JPY trading in the 158/160 area. At the same time, Chinese authorities may well be selling USD/CNY and converting it into a short position in the one-year outright forward as they continue to support the renminbi. In other words, central banks are currently and potentially adding to the dollar supply.

A second point worth mentioning is that risk assets are slightly better bid on the (albeit slim) prospects of less aggressive US tariff policy plus the news yesterday that the Fed's Michael Barr is stepping down in his role as the Fed's financial supervision tsar. He had been battling Wall Street for tighter capital controls, but it seems he did not want a looming fight with the new administration to distract from the Fed's work. The US KBW regional banks index briefly rallied 2% on the news.

Turning to today, the focus will be on US JOLTS job opening data and the ISM Services index for December. Both could actually be supportive of the dollar, but let's see whether investors will want to use dollar rallies to pare back long dollar positions – such that any DXY rallies stall in the 108.40/60 area.

Chris Turner

📈 EUR: Will the ECB look through rising inflation?

Notably EUR/USD is holding onto the gains made on yesterday's *Washington Post* report. We consider this a fair adjustment after EUR/USD overshot on the downside last week. And short-term fair value models – based largely on rate spreads – suggest EUR/USD could correct further to 1.05 if there was sufficient reason. One such reason could be today's release of eurozone CPI for December. Germany's headline inflation [surprised on the upside](#) yesterday, driven largely by energy base effects it seems. Consensus expects the eurozone headline number to rise to 2.4% YoY from 2.2% and core to stay at 2.7%. Any upside surprise – particularly to the core reading – could further rein in the expected scale of this year's ECB easing. Currently the market prices in 107bp of rate cuts. That eurozone CPI data is released at 11CET today.

Short EUR/USD has probably been one of the highest conviction FX trades in late 2024. Notably, EUR/USD could not make it back to the 1.0335 starting point when the tariff report first came out. The FX options market suggests investors may be the most worried about an upside correction in EUR/USD since September. We read this from the one-week risk reversal – the price for a EUR/USD call over an equivalent EUR/USD put – which at 0.15% vols is now the highest since late September.

It looks like any surprise in eurozone CPI data or softer US data could drag EUR/USD back to 1.0460 and potentially 1.05 – all within an underlying EUR/USD bear trend.

Chris Turner

➔ CAD: Carney would be a market-friendly choice for PM

A leadership contest within the Canadian Liberal Party will select the new prime minister after Justin Trudeau's resignation yesterday. CAD has reacted positively to Trudeau's departure and is finding a bit more support this morning on reports that Mark Carney is a frontrunner to take the role.

Carney would be the most market-friendly candidate, but the domestic political shake-up will be

insufficient to drive USD/CAD materially lower by itself. CAD's weakness remains strictly tied to Trump's tariff policy, and even if direct duties on Canada are averted, universal 10% tariffs would disproportionately hit the US's largest trading partners like Canada. Expect some more short-term noise on CAD during the Liberal leadership contest, but our considerations made [here](#) about the upside risks to USD/CAD remain largely unchanged.

Chris Turner

➔ CEE: Poland returns after holidays while zloty tests new highs

Yesterday, the Czech Republic kept us busy with budget numbers, funding strategy and personnel changes at the Czech National Bank. As we expected, the budget deficit ended slightly better than MinFin projected with 2.4% of GDP (our estimate), giving hope of reaching 1.9% of GDP this year despite the general election in October. Thus, CZGBs supply should be similar or only slightly higher than last year and overall puts CZGBs in a good position within the CEE region where demand is rather down and fiscal consolidation is not going as planned in most places. CNB personal changes should not have too much impact.

Today, the Polish market returns after a holiday, while Romania remains closed. EUR/PLN fell 0.4% yesterday, underperforming CEE peers and testing new local lows. If PLN wants to retain gains, we believe rates today need to catch up with the paid rates market yesterday and improve the rate differential, otherwise EUR/PLN is heading more towards the 4.260-4.280 range, in our view. EUR/HUF tested a new local high yesterday, showing that the forint remains under market pressure and will struggle to see HUF assets rally with current EUR/HUF levels and volatility.

Frantisek Taborsky

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.