

FX Daily: A tale of two stock markets

US equity benchmarks continue to push higher as most of the big tech stocks close in on bullish target prices. Chinese equities, however, continue to languish as Chinese authorities institute an array of measures to slow the decline. This divergence can only be helping the dollar. Today we have policy meetings in the Czech Republic and Mexico



➔ USD: S&P 500 at 5000

US asset markets are having a good few weeks. Equity benchmarks are pushing up to fresh highs and last night's US 10-year Treasury auction saw decent demand. Leading the charge in US equities has been the big tech stocks. Just looking across the consensus price targets of the 'magnificent seven', the targets remain anywhere from 6% (AAPL) to 20% (AMZN) above last night's closing levels. The only one of the seven with a lower price target is Nvidia, where this year's 50% rally has overshot a price target largely there since last summer. Whether the psychological 5000 level in the S&P 500 now proves something of a hurdle remains to be seen. But from the equity analyst community anyway, the consensus is that there is more to come.

In contrast, China's CSI 300 benchmark is down 2.5% year-to-date. Officials have been looking at an array of measures to arrest the decline, including bans on short-selling, strategic ETF purchases

and most recently personnel changes at the top of the China Securities Regulatory Commission. Presumably Chinese deflation does not help here, even though [we think the January CPI will be the low point in the cycle](#).

The point here is that the very differing performance of these equity indices also reflects perceived growth differentials and for the dollar decline there needs to be an attractive story elsewhere in the world. China's stuttering economy suggests those conditions are far from being met.

Back to the short term and we have recently been discussing the event risk of this Friday's US CPI benchmark revisions. James Knightley and Padhraic Garvey have discussed this in detail [here](#). We suspect the dollar will continue to trade on the firm side heading into this 08:30ET release on Friday - but the dollar could sell off afterwards and risk assets could rally, should these revisions not upset the US disinflation story. We doubt the US initial claims will be a big market mover today and can see DXY staying bid in the 104.00 to 104.60 range.

Chris Turner

➔ EUR: Let's hear it for the hawks

EUR/USD is drifting around in ranges. In terms of today's calendar, we receive the European Central Bank's Economic Bulletin at 10:00CET and then have speeches from key ECB hawks, Boris Vujcic (12CET) and Pierre Wunsch (13CET). Despite the recent ECB pushback against early easing - including most recently from Isabel Schnabel - the market is resolutely attaching a 60% probability to a 25bp cut from the ECB in April. We think this should still be priced out. We doubt EUR/USD will make a move higher before tomorrow's US CPI revisions, meaning that 1.0800 should prove good intra-day resistance.

Elsewhere, the slightly higher rate environment has seen EUR:CHF two-year swap differentials widen back out to 188bp and support EUR/CHF. There should be more to come here and we wonder whether speculation builds over a Swiss National Bank rate cut as early as March. We retain a view that EUR/CHF should be heading to 0.95/96.

Chris Turner

⬇ CZK: Time for CNB to catch up

The Czech National Bank will hold its first monetary policy meeting of the year today. We expect an acceleration in the pace of rate cuts from December's 25bp to 50bp, i.e. from 6.75% to 6.25%, in line with market pricing. However, surveys prefer 25bp. As usual, in recent months, it will be a close call today mainly due to EUR/CZK, which has been moving gradually higher in the last few days. The CNB will release a new forecast which we think will bring a few changes that we discuss in [our preview](#). But the overall tone will be dovish. Therefore, we believe that even if the CNB only cuts rates by 25bp, there will be at least two votes for a 50bp move. This combined with a dovish forecast and the prospect of very low inflation next week should result in a dovish outcome for the market either way.

The Czech koruna has weakened above 24.90 EUR/CZK, which is basically the weakest level since early 2022. If the CNB delivers a 50bp rate cut, it is obviously negative news for the CZK. But on the other hand, we believe that the market positioning is already heavily short and rates are already pricing in the vast majority of CNB rate cuts. That is why we see the peak around 25.20 EUR/CZK. A

minor cut, however, could bring a temporary strengthening towards 24.70 given heavy dovish expectations. In the long-term, however, we think that after the 50bp rate cut and January inflation, the market should have hit the limit of what can be priced in and the CZK should start appreciating again later this year thanks to the economic recovery, good current account results and falling EUR rates improving the interest rate differential.

Frantisek Taborsky

➔ MXN: Will Banxico pull the trigger?

Banxico meets to set interest rates today. It has had a good couple of years - having moved swiftly to raise rates and keep a 600bp spread of the Fed funds rate to very successfully stabilise the Mexican peso and inflation. The question is whether they will merely follow the Fed lower with rates or feel confident enough to cut before the Fed. We think the peso would not sell off too aggressively if Banxico did surprise and cut its 11.25% policy rate today. For reference, four of thirty economists polled by Bloomberg are looking for a cut.

The Mexican peso has been one of the very few currencies to appreciate against the dollar on a total return basis this year. And even if rates were cut, we think 10%+ implied yields, backed by supportive fiscal policy in an election year, should see strong demand emerge for the peso on any dips. We think USD/MXN will be trading in the 16.50-17.00 area later this year when the dollar trend turns broadly lower.

Chris Turner

Author

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

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