

FX Daily: A week of disinflation tests

CPI reports in the US and the UK will be in focus this week. We see a greater risk for a lower-than-expected number in the US even though our estimates match consensus, while UK services inflation and wage growth should remain sticky. The dollar is facing some downside risks this week, but EUR/USD volatility should remain capped



➔ US: Waiting on the inflation catalyst

The US dollar index has eased back modestly over the past week after trading at its 2024 highest. The repricing of rate expectations following the hot US payrolls figures has offered some continued support in the dips to the dollar: this week, the US CPI release (tomorrow) can be the new catalyst for larger positioning shifts in FX.

Our economics team's estimates are aligned with consensus for a 0.3% month-on-month core print, but we think the risks are skewed more towards a 0.2% than a 0.4% print. Accordingly, there are some downside risks for dollar, even though our base case is for a consensus print to leave few marks on the FX market. Ultimately, investors may need to look elsewhere to fine tune rate Federal Reserve rate expectations, which currently see a first rate cut in June. A week retail sales print on Thursday may revamp expectations for a May rate cut, and take the dollar lower.

That said, evidence for the jobs market and the lack of faster disinflation should still be enough to

discourage aggressive dollar selling. We remain comfortable with our call for some extra resilience in the dollar in the first quarter, before a clearer downtrend emerges from the second quarter.

Today, the US calendar is quiet data-wise. On the Fed front, there are speeches from Michelle Bowman, Thomas Barkin and Neel Kashkari.

Francesco Pesole

➔ EUR: Diverging ECB comments

The number of comments by European Central Bank (ECB) officials has intensified in the past few days, and so has a divergence in views expressed by different members. Fabio Panetta, the most dovish voice in the Governing Council, endorsed rate cut expectations, saying that the time for monetary easing is “fast approaching”. That unsurprisingly differs from the latest remarks by Isabel Schnabel (a hawk), who warned against cutting too early, but also from more dovish members like Mario Centeno and Pablo Hernandez de Cos, who still seem to prefer caution over dovish guidance.

Despite some voiced unhappiness from doves like Panetta, consensus among policymakers appears to be favouring holding rates should at least until April's European wage statistics. June looks increasingly likely as the starting date for monetary easing, and markets are also buying this view with increasing confidence. We agree with a June cut, but still think markets are overestimating the ECB's easing cycle by around 40bp by December. Conversely, markets pricing for a 125bp of Fed cuts in 2024 seems too conservative (we expect 150bp). The convergence of US and EZ rates will – in our view – be the bigger driver of a EUR/USD rally by year-end.

In line with our dollar view, though, the holding pattern that EUR/USD has shown recently may well remain the norm in the coming weeks. US CPI will be the big highlight for the pair this week, while the eurozone calendar's main release is tomorrow's ZEW survey out of Germany. We see some modest downside risks for the dollar this week, and think EUR/USD can find some support back above 1.0800, although a return to the 1.093/1.0950 area looks premature. On the ECB side, keep an eye on Philip Lane's speech today.

Francesco Pesole

➔ GBP: Data-packed week

The second-best performing currency after the USD of 2024, the pound, is about to face a couple of key data tests this week. Tomorrow, jobs data for January is released, and Wednesday sees the CPI report and Thursday GDP data.

Our economics team sees both wage growth and services inflation remaining sticky in the first quarter, meaning that the Bank of England will have no rush to turn to a more dovish communication in the near future. Markets are expecting the BoE to move with a delay (in August) compared to the ECB's and Fed's easing cycles. We agree, but also see 100bp (vs 80bp priced in) of cuts by year-end.

Some GBP weakness against the EUR down the road is therefore our base case, but the short-term outlook remains quite constructive for sterling.

Francesco Pesole

➔ CEE: GDP and CPI week in the region

We have another busy week ahead of us in the CEE region. Today's calendar is basically empty but it will be more interesting in the coming days. Tomorrow we will see the decision of the National Bank of Romania where [we expect](#) rates to remain unchanged. Then the current account for December in Poland, the Czech Republic and Romania will be published. On Wednesday we will see fourth quarter GDP in Poland, Hungary and Romania and industrial production in Romania. On Thursday, January inflation will be published in Poland and the Czech Republic. In both cases, we expect a result below market expectations. And on Friday, the Czech National Bank will publish the minutes of its February meeting when it cut rates by 50bp to 6.25%. As always, you can find all the numbers in our latest [week ahead article](#).

Our pick last week was a higher PLN/HUF, which touched 90.00 for the first time ever on Friday. Still, PLN remains our favorite in the region due to hawkish central bank support and payers in the rates market. On the other hand positioning is clearly an issue here slowing more gains. A slow grind to 4.30 EUR/PLN is thus our scenario for this week. EUR/HUF on the other hand is being pulled higher as the market puts the 100bp rate cut bets back on the table. Therefore, we see a fairly wide range for these days of 386-390. EUR/CZK has jumped to 25.20, the highest since early 2022, following the [CNB's rates cut](#) by 50bp. We expect some downward pressure on rates to persist in the market this week, especially due to the inflation print on Thursday. EUR/CZK could thus test 25.30. However, after that however, we think market pricing will hit a limit and it makes sense for us to think about fading this move in EUR/CZK.

Frantisek Taborsky

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

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

chris.turner@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 www.ing.com.