

FX Daily: All eyes on Monday's inauguration

Markets may tread carefully today ahead of Monday's inauguration of President Trump. There are lingering concerns about the "day one" measures, some of which are priced in, which could generate some volatility early next week. For now, the dollar may stay in a holding pattern, retaining its overvaluation against some tariff-sensitive currencies



Authorities have begun fortifying Capitol Hill and many areas around Washington in preparation for Inauguration Day on 20 January 2025.

➔ USD: Inflation still a headache

FX markets may enter holding mode today as the US data flow slows and some wait-and-see approach prevails ahead of Monday's presidential inauguration.

The perception at the end of a busy week in macro news is that the optimism around a month-on-month slowdown in core inflation is cautious at best. The inherently forward-looking markets are factoring in Trump's inflationary policies from a starting point that is already significantly above the target. So, despite stretched positioning and short-term overvaluation, the dollar continues to dodge true catalysts for a correction.

Yesterday's Senate hearing of Treasury Secretary nominee Scott Bessent was not particularly eventful for markets. He predictably stressed the need to cut discretionary government spending – a flagship Trump policy – but did not sound as hawkish as Trump on delivering new tax cuts. In the first Trump administration, cabinet members often had to temper the President's strong statements, and we can probably expect Bessent to deliver more balanced remarks on fiscal policy, considering the impending debt constraints.

Today's calendar includes housing starts and industrial production in the US, which are both expected on the strong side. The Federal Reserve enters the communication blackout period tomorrow ahead of the 29 January meeting. We expect some stabilisation in most dollar crosses today.

In other markets, China's [fourth quarter 2024 GDP](#) surged to 5.4% year-on-year, up from 4.6% YoY and marking the highest level of the year, and the fastest YoY growth of any quarter since 2Q23. This was also a much more impressive reading given that 2Q23 benefited heavily from a favourable base effect. The fourth quarter growth level was a significant beat and moving the full-year growth back to 5.0% will put to rest any potential debate on whether or not a lower growth level would have been sufficient to fulfil the "around 5%" growth target.

Francesco Pesole

➔ EUR: Risk premium here to stay

EUR/USD appears to have found a short-term anchor at the 1.0300 handle. That is a level that embeds a 2.5-3% risk premium (i.e. undervaluation), which we suspect will not be materially trimmed until more clarity on Trump's protectionism policy emerges.

That said, that stretched valuation and the latest speculative net short EUR/USD positioning at 11% of open interest (CFTC data) makes us lean against another big leg lower in the pair. That, in fact, may require some big USD-positive headlines from Trump on Monday.

Today's eurozone calendar includes the release of final CPI data for December, with the core measure expected to be confirmed at 2.7%. There has been no shift to a less dovish tone by the European Central Bank from the already dovish December meeting ([the minutes](#) were released yesterday), even after a tick higher in inflation; and we can expect monetary policy to remain a net negative factor for the euro at least in the coming weeks. We expect EUR/USD stability around 1.0300 today.

Francesco Pesole

➔ CAD: Carney's leadership bid not a game changer

Mark Carney formally announced yesterday that he will run for Canada's Liberal Party leadership to replace Justin Trudeau. The consensus appears to be that the leadership contest will be a close one between Carney and former finance minister Chrystia Freeland. Recent opinion polls show Carney has a small advantage over Freeland, while betting markets give him a 70-30 lead.

In our view, Carney remains the more market-friendly alternative, considering Freeland's conflicting terms with Trump on trade. That said, it is likely that the new Liberal leader will face a parliament no-confidence vote and the probability of elections before the October statutory deadline remains high. The Conservative party, led by Pierre Poilievre, holds a huge lead in the

polls, so we believe Poilievre's plan for the US-Canada trade relationship may be more relevant for Canadian markets than that of the new Liberal leader.

For now, the loonie remains in limbo. USD/CAD has been flat since the start of the year, and still embedding a 3% risk premium associated with the risk of Trump's tariffs – according to our short-term fair value model. Even if unilateral 25% tariffs on Canada don't materialise, smaller universal tariffs would still asymmetrically damage the economy of the main US trade partners. In 2023, exports to the US accounted for roughly 20% of Canadian GDP.

To rebound at this stage, CAD requires more reports suggesting a lighter-touch approach by Trump on trade. Barring that, we expect the risk premium to linger and some support around 1.430 in USD/CAD.

Francesco Pesole

PLN: Waiting for hawkish press conference

As expected, the National Bank of Poland left rates unchanged at 5.75% in line with market expectations. The central bank's statement did not see much change from December, but the sentence regarding strong FX helping to dampen inflation disappeared. This change could have two explanations - the zloty is no longer as strong in the NBP's view due to the depreciation against the dollar, which would imply a hawkish leaning, or inflation is no longer such a problem given the weaker numbers this week. We lean towards the first option and also see [the statement as more hawkish](#) in the detail of the description of inflation risks. So overall we expect a hawkish press conference again today indicating rather late rate cuts than earlier.

Contrary to our view, the market reacted more dovishly although this was already the direction of travel before the NBP statement was released. The rally in core rates and also lower core inflation helped rates move down while slightly weakening the PLN. However, the drop in rates and more dovish pricing gives room for a sell-off in rates again if our expectations from today's press conference are confirmed. Therefore, our view on PLN remains unchanged. Although the current rates point to a weaker PLN in the 4.280-290 EUR/PLN range, we believe that a hawkish NBP will keep the currency pair in the 4.260-4.270 range and could potentially retest the lower boundary. However, as we discussed earlier, the NBP has been hard to predict in recent months and our conviction is low.

Frantisek Taborsky

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

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

chris.turner@ing.com

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