FX Daily: Another bumpy week for the dollar

The dollar starts the week on the soft side as investors digest what trade policy uncertainty means for the US economy. The risk of a US military strike against Iran has not receded, and traders will be reluctant to pile into pro-risk positions. For today, look out for an upbeat German Ifo; we'll also hear why the Fed's Christopher Waller wants a rate cut

Dollar selling likely reflects both the US decision not to strike Iran over the weekend and ongoing trade uncertainty weighing on the economy

USD: Uncertainty does not help the dollar

The dollar is starting the week on the softer side. The fact that the US did not launch a military strike on Iran this weekend is probably one factor behind the dollar selling, but trade uncertainty and what it means for the US economy is another. Please see our macro team's update on the most recent US trade policy developments here.

On the trade side, the world now has to deal with a 15% Section 122 import surcharge, rather than the varying tariff levels imposed under the prior IEEPA regime. This means that the likes of China and Brazil could get lower tariff rates, but countries such as the UK and Australia would lose the advantage of their 10% negotiated deals. Needless to say, many are now reviewing their trade deals with the US, the most important of which is probably the EU. While US equities initially bounced on the news on Friday, equity futures are off 0.6/0.7% overnight as investors reassess ongoing tariffs and US businesses face little immediate prospect of seeing any tariff rebates.

In our market reaction piece on Friday, we felt one of the cleanest moves would be for US Treasuries to weaken on fiscal concerns. Holidays in Asia have meant we have not seen much US Treasury action overnight, but certainly the FX market will be taking its cue from Treasuries today. There is a small chance of a synchronised sell-off in Treasuries, equities and the dollar if investors believe that one of the core pillars of Washington's economic policy is starting to crumble.

After a soft 4Q25 US GDP print on Friday, the US economic calendar this week has some consumer confidence figures (Tuesday) and PPI figures (Friday). Event risk also comes in the form of US President Donald Trump's State of the Union speech tomorrow evening and Nvidia's 4Q25 earnings release on Wednesday evening. For today, we are interested in a speech from the Federal Reserve's Christopher Waller at 2:00pm CET. He voted for a 25bp cut in January. Presumably, he will stay dovish today with his stance that a rate cut should prove precautionary against a further deterioration in the US labour market. Any less dovish statements could give the dollar a bounce, given the influential nature of his speeches over recent years.

The risk of a military strike on Iran probably discourages heavy dollar selling this week, but we can see DXY softening within a 97.00-98.00 range.

Chris Turner

EUR: Defensive gains?

EUR/USD is edging higher even though Friday's bounce in risk assets did not last long. One takeaway is probably that the EU will not get any worse a trade deal than it already has, and one that European exporters have learnt to live with. This comes at a time when eurozone business sentiment continues to creep higher. That story should see further backing today in the form of the German Ifo business survey for February. A modest uptick is seen in the expectations component – although we would probably need to see a spike to the 91.5 area (last year's highs) to give the euro much of a lift today.

But, as above, there is also the small risk that US assets and the dollar have a soft day, which would lend support to the next most liquid currency after the dollar. EUR/USD can probably edge up to the 1.1850/80 area, but looking for an advance through 1.1900 looks premature given the Iran risk.

Chris Turner

GBP: BoE speakers and by-election in focus

EUR/GBP remains reasonably bid ahead of two event risks this week. The first of those is probably testimony to the Treasury committee tomorrow by Bank of England Governor, Andrew Bailey, and Megan Greene. Any suggestion that they could move into the rate-cutting camp for the 19 March decision could firm up the pricing of the March cut to 25bp from 20bp currently.

The second event risk is Thursday's UK by-election in Gorton and Denton. A heavy defeat for the ruling Labour Party could re-ignite speculation over the Labour leadership and again weigh on sterling. EUR/GBP could well be ending the week closer to 0.88.

Chris Turner

CEE: Let's test the forint's resilience

The end of the month will see a light calendar in the CEE region, with only a few releases of secondary data. After weaker industrial data in Poland on Thursday, today we will see retail sales numbers, which should show the impact of cold weather, but to a lesser extent. Tomorrow, the National Bank of Hungary, according to our expectations, will open the cutting cycle again and cut rates by 25bp to 6.25%, the first time since September 2024. Particular attention will be paid to forward guidance; we expect the February cut not to be a one-off, and we should see another cut in March as well.

After the US trade headlines, the market can be expected to open the week in a risk-off mood, and CEE currencies may suffer. Still, the weaker US dollar should offset this impact somewhat, and the sell-off in rates in the last few days in the region should help keep CEE currencies stable.

The main focus will be on EUR/HUF, which will test the strength of carry positioning after the NBH restarts rate cuts. The market is fully pricing in the rate cut in February and March, so we do not expect significant damage unless the NBH surprises with dovish guidance. Still, EUR/HUF tested 378 again last week, a two-year low, and the rate cut will push the pair higher. Meanwhile, the market has repeatedly shown a willingness to use any higher levels for new forint longs.

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