

FX Daily: Attempting the re-basement trade

The dollar has recovered a bit further as gold and silver have plunged, and we think there is enough stability to let data do the talking in FX this week. The US calendar should culminate in decent payrolls/unemployment, opening the door to some more dollar upside. Elsewhere, the ECB may not discuss the euro much after all, while the RBA could hike tonight



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📉 USD: Some health restored

The dollar is looking healthier. The de-basement trade that seemed primarily behind the USD plunge of the past week has started to unwind since Kevin Warsh became US President Donald Trump's nominee for Federal Reserve Chair. The size of the correction in overbought precious metals is probably offering some additional support to the dollar, but we have stressed repeatedly how the USD drop appeared too detached from the macro story anyway.

With the dollar now having recovered to some degree, we think it will move more in line with data and short-term rates dynamics this week. The US calendar is quite heavy, with ISM surveys (manufacturing released today), and JOLT and ADP before the jobs data on Friday. Our call is for

80k payrolls and unchanged 4.4% unemployment, which can set the stage for a further stabilisation/recovery in the dollar.

Before then, we'll be observing closely how much interest there is in buying the dips in EUR/USD. It appears to us that the bigger support level was around 1.1880-1.1900, and the break lower is a sign of some restored confidence in the dollar. Another new leg higher without any data or events clearly justifying it would suggest the damage to the dollar is longer-lasting. For now, our call remains for a further USD recovery in the short term.

Francesco Pesole

📉 EUR: Euro strength fears may be overblown

This week's central focus is determining how seriously the European Central Bank views the euro's appreciation. The fact that EUR/USD is no longer at the much-feared 1.20 level does decrease the chances of any vocal reaction from ECB members, but those were more likely to feature in post-meeting comments or the minutes anyway.

At this Thursday's meeting – find our [latest preview](#) here – there may simply not be enough to trigger a shift in President Christine Lagarde's dislike of discussing exchange rate levels. Equally, we doubt markets are pricing in much risk of verbal discontent with the euro's strength, so the bar for a negative euro reaction arguably isn't high.

Eurozone core inflation on Wednesday is expected to edge slightly lower to 2.2%. Our economists are expecting 2.3%, but either figure should hardly matter for the euro at this stage. EUR/USD should remain almost entirely an extension of USD sentiment, and if we are right to believe USD confidence is gradually rebuilding, we expect a move to our estimated short-term fair value of 1.1770 for EUR/USD sooner rather than later.

Francesco Pesole

📈 AUD: RBA to hike in close call

The Australian dollar has been a major victim of the abrupt unwinding of gold and silver longs. Anyway, it did appear that AUD/USD was embedding an excessive amount of positives in January, considering unchanged rate differentials. Unlike EUR/USD, where one of the two legs (EUR) has seen minimal changes in rate expectations of late, AUD/USD has faced some short-end action on both sides.

Markets have progressed to price in 19bp of tightening by the Reserve Bank of Australia at tonight's meeting, and [we are aligned with consensus in calling for a 25bp hike to 3.85%](#). This appears to be a close call, and while the upward surprise in December CPI (paired with a hot housing market) justifies this move, the RBA should refrain from signalling that this is the start of a new hiking cycle. Markets are pricing in at least another hike by year-end, and any indications this could be a one-and-done move would cap the support a hike can give to AUD.

Our view is that the implications of RBA tightening on AUD/USD may be more visible beyond the short-term anyway, once the USD's overpowering volatility has dissipated. In line with our USD view, and given market pricing already leaning on the hawkish side, we think AUD/USD should still trade back lower in the coming weeks before re-entering a sustainable path beyond 0.70.

Francesco Pesole

📌 CEE: Judgment day for the koruna is approaching

Friday's fourth-quarter GDP numbers in the CEE region confirmed our two-speed story, and this week the focus shifts to central banks. Today, we expect to see PMIs across the region sending mixed signals.

Tomorrow, Turkey will release its January inflation data, which will be key in setting the pace of the Central Bank of Turkey's rate cuts moving forward. We expect 4.2% month-on-month, translating to a decline from 30.9% to 29.8% year-on-year; the upside risk, however, comes from food prices.

On Wednesday, the National Bank of Poland is likely to leave rates unchanged at 4.00% after wages surprised to the upside and GDP numbers remain solid. Thursday will be followed by the NBP's press conference, where the market will focus on the terminal rate communication.

Thursday is also a key day for the Czech National Bank. Inflation figures for January will be released in the morning, where we expect a sharp drop from 2.1% to 1.1% YoY. This should push the central bank to lean more dovish and cut rates in March. However, the January number in the Czech Republic is highly volatile, and a surprise to the downside could bring a rate cut as early as this week's meeting – or, conversely, postpone it until the summer.

On Friday, industrial production numbers in the Czech Republic and Hungary will conclude the week.

Market attention has once again been preoccupied with the global story, and despite a busy week, we did not see much volatility in Central and Eastern Europe while it tried to stay out of the global noise. However, the EUR/USD downtrend and risk-off mood suggest worse conditions for the region this week.

At the same time, this week should be a test for the koruna, depending on Thursday's inflation figure. EUR/CZK is expected to be in the range of 24.350-400, which is where it should enter Thursday's meeting, and we see the risk of further upside if our dovish expectations are confirmed. This would open the way to 24.500-600.

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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