

FX Daily: Bracing for volatility

There are some important data to watch today: the Employment Cost Index in the US, GDP in the eurozone and CPI in France. We think the dollar can stay broadly supported into tomorrow's FOMC, but the euro could outperform other G10 currencies on the back of rebounding inflation. In the Czech Republic, we will see the last numbers before Thursday's CNB meeting



The dollar may stay broadly supported going into tomorrow's FOMC meeting

USD: Some support going into the Fed meeting

European data and global risk sentiment drove G10 FX dynamics yesterday. A weak start to the week for risk assets kept the dollar supported, especially during the US session, and signalled some market cautiousness ahead of multiple risk events: the FOMC tomorrow, ECB and Bank of England on Thursday, and US payrolls on Friday.

Today, the last few pieces of US data before the Fed decision will be watched quite closely. Particular interest will be on the Employment Cost Index (ECI), which is expected to have eased from 1.2% to 1.1% in the fourth quarter. This is a key input in the Fed's policy equation, and we could see investors shift between pro-hawkish/dovish positions ahead of the FOMC if the ECI surprises on either side. [Our view for tomorrow](#) is that the Fed still has an interest in hanging on to a hawkish rhetoric and pushing back against speculation of an early peak and – above all – rate hikes in 2023. The net result for the dollar may be positive.

The US calendar also includes the Conference Board Consumer Confidence index – which may have rebounded in January – and the Dallas Fed Services index.

We think the dollar can hold on to yesterday's gains going into the FOMC meeting, and high-beta currencies could remain key underperformers in a risk-off environment. Volatility looks likely to pick up quite markedly during the remainder of the week.

Francesco Pesole

➔ EUR: Inflation headaches before ECB meeting

European rates markets had to deal with a surprising acceleration in [Spanish inflation](#) yesterday, which reinforced expectations of multiple 50bp hikes by the ECB. At the same time, the growth picture seems to have deteriorated, as Germany recorded [negative growth in the fourth quarter](#). Eurozone-wide GDP figures will be released today, and are expected to show a 0.1% quarter-on-quarter contraction. However, it seems more likely that CPI figures out of France this morning will have a bigger impact on the euro. After all, a rebound in inflation is a more concerning development for the ECB than soft growth data which were heavily impacted by energy prices.

In the section above, we discussed how the dollar may stay broadly supported going into the FOMC meeting. The euro, however, may show more resilience than other G10 peers (especially high-beta currencies) given the shift in the inflation narrative in the eurozone which can surely fuel ECB hawkish speculation. EUR/USD may hover around the 1.0850 handle until tomorrow's FOMC.

Yesterday, we published [our scenario analysis](#) for this week's ECB meeting: the recent hiccups in communication have heightened the risk that markets have lost some trust in President Christine Lagarde's guidance. Investors may keep tracking data (EZ-wide CPI data are released tomorrow) more closely than they track Lagarde's remarks, and the ECB meeting may not have a big impact on the euro after all.

Our commodities team just [revised their gas price forecasts](#), now expecting TTF to stay below 80 EUR/MWh throughout 2023. This is a bullish scenario for eurozone sentiment and the euro in the medium term.

Francesco Pesole

⬇️ GBP: Standing by before 'super Thursday'

There are no key data releases in the UK before Thursday's [Bank of England](#) meeting. Markets are currently pricing in 46bp (our call is for 50bp) at this meeting and an additional 25bp in March. We expect a broadly neutral impact on the pound, and GBP/USD moves may be mostly dictated by the FOMC reaction.

EUR/GBP may hold below 0.8800 until "super Thursday" (ECB and BoE meetings), although inflation figures in the eurozone mean the balance of risk is tilted to the upside for the pair.

Francesco Pesole

➔ CEE: Czech economy pulled down again by automotive

Today in the region we will see the first estimate of GDP for the fourth quarter of last year in the

Czech Republic. We expect a 0.8% QoQ decline, below market expectations. This would confirm a shallow recession in the Czech economy. Looking ahead, the outlook for the first quarter of this year also does not look good despite better numbers across the region and from the eurozone. Yesterday, the Czech Republic's largest carmaker announced production cutbacks at some of its factories due to chip shortages. The news comes just a week after the country's third-largest manufacturer made the same announcement. This marks the beginning of difficult times for the industry, which is mainly driven by the automotive sector. The situation is dangerously reminiscent of the end of 2021 when chip shortages and automotive production curbs dragged the industry into its biggest slump since the Covid-19 lockdowns. This may also be a piece of the puzzle for the [Czech National Bank \(CNB\) meeting](#) this week, however we will have to wait a few months for proof in hard data. For the koruna, a weaker economic number could be a trigger to correct recent gains and return to 24.00 EUR/CZK.

We also see interesting developments in Hungary following the downgrade of the country's sovereign rating. The weakening of the forint that we mentioned yesterday did not materialise and, on the contrary, the currency ended roughly unchanged at the end of the day. It confirmed that the strengthening of the forint is not short-lived and its strengths are of a more permanent nature. In the long term, we expect further strengthening. For now, we see yesterday's market reaction as a possible clearing of long positions while attracting new buyers and consolidating around 390 EUR/HUF.

Frantisek Taborsky

Authors

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

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 <http://www.ing.com>.