

## FX Daily: Cautious optimism prevails

FX markets continue to trade with cautious optimism on the view that a US slowdown can rein in a hawkish Fed and that a reset in China policy will (eventually) see resurgent consumer demand and perhaps even improved foreign relations. That looks like a good story for the commodity and EMFX complex. Look out for comments from Fed Chair Powell today and the NFIB



The market is growing increasingly confident that the Fed will end its tightening cycle this quarter

### ⬇️ USD: Powell pushback?

Risk assets have started the year on a strong footing, with a good performance from both equity and debt markets. Emerging markets are back in fashion after a tough couple of years, where the building view that the Fed can soften its pressure on the monetary brakes plus China re-opening can see quite a strong recovery in emerging market currencies against the dollar. We note with interest a piece in the [Financial Times](#) today speculating on China's approach to stimulating domestic demand and also seeking to improve foreign relations. China's softening of a ban on coal imports from Australia and yesterday's news of a 20% increase in crude oil import quotas are consistent with the article.

This comes at a time when the market is growing increasingly confident that the Fed will end its tightening cycle this quarter and embark on an easing cycle in the third quarter. Today will see two

inputs into that Fed story in the form of i) comments from Fed Chair Jerome Powell around 15CET today and ii) the NFIB small business sentiment survey. Powell is speaking at a Riksbank conference on central bank independence, making it unclear whether he will today push back against the recent softening in US financial conditions. Certainly, the market does not buy into the Fed's narrative of the funds rate being taken to 5.00% and being kept there for a long time. Markets seem to price a 50bp easing cycle in 2H23.

Regarding the NFIB survey, the market will be interested in whether it sinks any further and supports the recessionary readings provided by last Friday's ISM services release.

Assuming that neither Powell's comments nor the NFIB breaks the building narrative of a more relaxed Fed (and Thursday's US CPI will also be key for this story), we would expect momentum to remain against the dollar and continue to favour activity/commodity currencies. Speculation will also be building that the Bank of Japan might have a further Japanese government bond (JGB) yield target adjustment in store after the Tokyo ex-food CPI hit 4% year-on-year – a level last seen in 1981. The Bank of Japan meets next week.

DXY looks biased towards the 102.00 as investors put money to work on non-USD assets.

*Chris Turner*

## **EUR: So far, so good**

EUR/USD managed to nudge up to a new high yesterday without the support of much new news. It seems that asset managers are starting the year by placing money overseas, where dollar sales for emerging market currencies seem to lift EUR/USD as well. That said, European equities continue to outperform at the start of the year and eurozone data also continues to surprise on the upside.

For the time being, we would prefer to back further EUR/USD strength – should today's US event risks allow. This could see EUR/USD pressing last May's high at 1.0785. This week there is an outside risk of 1.0950 should Thursday's US December CPI show another soft reading. Before we dust off the call to 1.15, we should note that a re-opened China will compete for global LNG supplies. This means that the issue of high natural gas prices could well come back and bite the eurozone and the euro later in the year.

*Chris Turner*

## **GBP: Better risk environment provides some insulation**

Sterling has been performing slightly better, helped no doubt by the constructive risk environment at the start of 2023. The UK has quite a large country weight in global equity and debt benchmarks, meaning that flows into these products can provide some support. Sterling barely budged yesterday on comments from Bank of England Chief Economist Huw Pill that there were early signs that the UK labour market was softening. Again, market pricing of a further 100bp BoE hike to the 4.50% area this summer looks resolute.

0.8770-0.8870 may well contain EUR/GBP for the rest of this week, though GBP/USD could have some more upside should US data allow.

*Chris Turner*

## 📈 CEE: Romania closes the hiking cycle in the region

Today's calendar in the region offers National Bank of Romania (NBR) policy [meeting](#). Although it seemed likely that we would not see another rate hike after the last meeting, the November inflation number has convinced us that one more hike is more than likely. That is why we expect the last 25bp rate hike today to 7.00%. However, our chief economist in Bucharest, Valentin Tataru, gives a 30% chance that rates will remain unchanged today. A rate hike is unlikely to impress anyone, and we will look for clues as to how the NBR views the liquidity situation in the market. From a rate perspective, we think this meeting should be the last live one, which will close the CEE region's hiking cycle, given that we do not expect rate hikes anywhere else.

The Romanian leu, like the entire CEE region, has benefited from favourable global conditions in recent weeks and, with the exception of the last few days of last year, has remained below NBR intervention levels. Although Romania is the least energy-dependent country in the region, the positive impact of the drop in gas prices and the more favourable EUR/USD level has not avoided the Romanian market. These conditions are expected to persist in the coming weeks. Although the carry level is among the lower ones within the region, it is at least stable. Moreover, the central bank maintains strong market confidence not to allow a depreciation above intervention levels. Thus, in our view, any EUR/RON upward moves may be tempting for RON buyers.

*Frantisek Taborsky*

### Author

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@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](http://www.ing.com).