

## FX Daily: Central bank meetings and US GDP in focus

FX markets start the week in a quiet fashion. The highlight this week will be central bank meetings in many parts of the world, including Japan and the eurozone. No major changes are expected in developed market monetary policy, but decent fourth quarter US GDP data could see US interest rates back up a little further, keeping the dollar supported



The European Central Bank's main building in Frankfurt, Germany

### ➔ USD: Dollar can stay supported

The dollar looks to be trading in a supported fashion. This year's backup in short-term rates has reined in some of the pro-risk sentiment that dominated markets late last year. This backup in rates has largely been driven by central bankers saying they are in no rush to cut rates. After the informal commentary seen over recent weeks, this week will start to see the formal communication as central banks meet in Japan (Tuesday), Canada (Wednesday), and the eurozone and Norway (Thursday).

Like many, [we think](#) the earthquake in Japan makes it too early for the Bank of Japan (BoJ) to unwind its Yield Curve Control this week. In fact, there have been surprisingly few source stories

ahead of this particular meeting, even though we will see a crucial set of new forecasts for prices and activity. Assuming the BoJ springs no surprise, USD/JPY should continue to hover around 148.

For the dollar this week, our macro team forecasts above-consensus fourth quarter GDP on Thursday. This could see the market further pare back Federal Reserve easing expectations this year. The market currently attaches a 43% chance of a cut in March and an easing cycle this year now worth 115bp. An interesting aside. Some US banks are proponents of the March Fed cut because the Fed will probably not be renewing its Bank Term Funding Programme in early March. Currently, it seems that some US banks are using the facility to borrow cheaply (4.87% p.a.) and park money at the Fed (5.30%). The thinking goes that a rate cut in March could smooth funding conditions for the regional banks. We do not subscribe to this view and maintain a call for the first rate cut in May.

Beyond the US GDP data this week, Friday sees December personal consumption data, where the deflator is again [seen at 0.2% month-on-month](#). This could deliver a benign end to the week.

In all, we would say it looks like a range-bound week for the dollar where DXY could trade out something like a 103-104 range. That will continue to see the market interested in carry, and we note that the Turkish lira and the Indian rupee have still managed to deliver year-to-date total positive returns against the dollar – in a broadly bid dollar environment.

*Chris Turner*

## ➔ EUR: Lots of input this week

The euro has plenty to sink its teeth into this week. Beyond [Thursday's European Central Bank \(ECB\) meeting](#), tomorrow sees the latest ECB bank lending survey and Wednesday sees the flash PMIs for January. These two data sets had weighed quite heavily on the euro last autumn/winter and will be closely watched ahead of the ECB policy meeting. As Francesco Pesole discusses in our [ECB Cheat Sheet](#), our baseline view sees EUR/USD hanging around these 1.09 levels as the ECB tries to re-position for a data-dependent approach for future policy.

Noteworthy is that far more has been priced out of the ECB than the Fed easing cycle this year. This paring back of ECB easing expectations has helped one of our conviction currency views – a higher EUR/CHF – head in the right direction.

EUR/USD itself looks set to trade out something like a 1.0850-1.0960 range near term.

*Chris Turner*

## ➔ GBP: Trading on the firm side

EUR/GBP has stayed pretty offered and Friday's release of soft UK retail sales in December has not done too much damage to the pound. Given that it's PMI week, sterling may continue to hold gains against the euro. This is because the UK's composite PMI is smartly above 50 (last reading 52.2) compared to the eurozone's (48.0).

EUR/GBP has lots of support in the 0.8500/8550 area and our base case assumes this is the bottom of the trading range this quarter.

*Chris Turner*

## ➔ CEE: Zloty found support, at least for now

It's set to be another rather lighter week ahead in the CEE region. Today in Poland, the full set of monthly data for December will be released, including industrial production, wages and retail sales. In all cases, we expect weaker numbers than the market expects. Tomorrow, we will also see wage numbers in Hungary. Consumer confidence in the Czech Republic will be released on Wednesday. The Turkish central bank will meet on Thursday and we expect one more rate hike of 250bp to 45%, and then a pause until the third or fourth quarter of this year. We will also continue to monitor further statements from central bankers in Hungary and the Czech Republic where interesting central bank meetings are coming up. In Poland, politics will continue to be the main topic following the European Commission's comments on the imminent release of EU money and the president's denial of the possibility of early elections.

PLN gained sharply after headlines calming political tension and erased all losses last week. The question is how the heavy long positioning changed after the sell-off and what to expect on the political side next. Positioning could be more balanced now which should prevent further spike weakness in our view. On the other hand, the political situation is far from resolved and we are more likely to see another escalation soon. At the same time, rates have priced in some rate cuts again and outperformed core rates significantly, undermining PLN support. Overall, we expect rather a stabilisation before we see more news flow from politics.

HUF has fully unlocked the weakening potential we pointed to earlier and we think there is still room for EUR/HUF to move higher into the 383-384 range. EUR/CZK seems without much momentum and we don't expect much change here at the current 24.700-800 range.

*Frantisek Taborsky*

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