

## FX Daily: Central banks back in action

The currency market has followed the stabilisation in tech stock sentiment, and today's focus will shift to central bank meetings. We don't think the Fed's conditions for a dovish tilt have been met, and USD can firm up on a hold today. Elsewhere, expect well-telegraphed 25bp cuts by the Bank of Canada and Riksbank. We have a bearish bias on both CAD and SEK



Fed Chair Jerome Powell

### ➔ USD: Limited risk of an FOMC dovish tilt today

Today's FOMC meeting is not anticipated to be a big market-moving event. In our [preview](#), we discussed how the Fed needs to see significant economic weakness and lower inflation to justify further rate cuts. For the moment, the job market and wages are gradually cooling, but not enough for resuming easing. According to market pricing, the conditions for a cut won't be in place until June.

The greater risk of a dovish repricing now is another sharp tech-led equity selloff rather than a tilt in communication by the Fed, in our view. Despite the slightly lower-than-expected inflation in December, the strength of the jobs market should keep Chair Jerome Powell's communication on the cautious side and markets may still lack a catalyst to price in more than the 50bp of cuts currently in the curve by year-end.

The themes of tech stock turmoil – even though sentiment stabilised yesterday – and the Fed's independence in light of President Trump's insistent calls for lower rates may be raised at the press conference. However, we don't think equity volatility this week has raised enough concerns at the FOMC about the potential knock-on wealth effect to warrant a comment by Powell. And expect a firm reiteration of the independence from political pressure.

If US tech stocks enjoy another calm day and the Fed remains cautious on easing as we expect, the dollar should consolidate gains as the revamped universal tariff risk justifies the current short-term USD overvaluation.

*Francesco Pesole*

## ➔ EUR: Looking at 1.040 more than 1.050

The euro continues to be driven by US events, from tech news to the tariff threat. Our view is that neither a cautious Fed today nor a dovish-leaning [ECB tomorrow](#) will trigger a material EUR/USD rebound.

We estimate the risk premium on EUR/USD at 2%, which is consistent with the resurging risk of universal tariffs by the US following Trump's comments earlier this week. We think that the confirmation that the US Treasury is actively laying out a plan for tariff implementation should prevent that risk premium gap from being closed.

We don't expect EUR/USD to trade much further from the current spot by the end of the week. If anything, we believe the risks are skewed towards a move below 1.040 rather than a return above 1.050.

*Francesco Pesole*

## ⬇️ CAD: BoC may lean on the dovish side

The Bank of Canada is widely expected to cut rates by 25bp today. That is also our call ([see our preview here](#)) and markets are fully pricing it in. The focus will therefore be on forward-looking indications from Governor Tiff Macklem, and on that we think the risks are skewed to the dovish side.

The market is pricing in a total of 70bp by year-end but embedding a pause at the March meeting. Given the tangible risk of US tariffs on Canada, whether ad-hoc or part of universal protectionism, we think the BoC will err on the dovish side and fail to signal it is close to reaching the terminal rate.

This means there are mostly downside risks for CAD today. Importantly, any indications from the BoC that US tariff risk can feed into a more dovish stance would further increase CAD's sensitivity to protectionism. That's because markets will feel more flexible to price in BoC cuts in a tariff scenario. We continue to see risks above 1.45 in USD/CAD.

*Francesco Pesole*

## ➔ SEK: Riksbank to cut, but terminal rate close

The Riksbank has already reduced rates by 150bp since last May, and these cuts are starting to

show early signs of success, with high-frequency indicators and the housing market having rebounded quite markedly of late.

That said, hard data is lagging and still shows an elevated unemployment rate. When paired with core inflation at target and headline CPIF at 1.5%, the case for another 25bp cut to 2.25% today is strong, as discussed in our [preview](#).

For the moment, our view is that the Riksbank will stop easing at the 2.0% mark, and that today's policy announcement will give away some hints that the easing cycle is nearing its end. That said, we expect the Riksbank to retain dovish flexibility based on the economic impact of US tariffs, and risks are markedly skewed to more cuts compared to our forecast.

The ultra-stable EUR/SEK is long due a recovery in volatility, and while today's Riksbank announcement may not be the trigger for that as policymakers may just match market expectations, the mix of equity market risks and US protectionism points to upside potential for the pair. Crucially, we don't think the Riksbank will necessarily show discontent with a weaker krona, as that can help Swedish exporters in a global trade slowdown.

*Francesco Pesole*

## Authors

### Francesco Pesole

FX Strategist

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

### 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)

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