FX Daily: China re-opening barely causes a ripple

It may be that today's US public holiday is having an effect, but China's reopening after the Lunar New Year break is causing barely a ripple in global financial markets. It will take more than just news of increased travel and spending to move the needle on global growth. This week is a quiet one for US data, but the euro receives some important input

Beijing, China

USD: Dollar can hold its own in a quiet week

The start of the new week sees focus on China's re-opening after its Lunar New Year holiday. Local reports suggest travel and spending have been strong in this period, which leads some to suggest that Chinese consumption is ready to re-accelerate. However, Chinese financial markets have been less than impressed. Despite the regional Asian equity benchmark rising 2.5% while China was on holiday, China's CSI 300 could only manage a 0.6% gain today. And the Hang Seng index was lower. Equally, the offshore renminbi - the CNH - barely budged today and has failed to make any impression on the 7.20 support level. It may be that investors have to wait until early March for the Two Sessions meeting to see whether policymakers can pull any growth rabbits out of the bag.

Talking of waiting until March, it seems the dollar can stay strong for the rest of this month. Seasonal factors are supporting it, but Friday's release of strong January US PPI data warns that the 29 February release of the core PCE inflation data - the Fed's preferred reading - could also print a high 0.4% month-on-month and continue to thwart the disinflation trade. That would be our preferred view. We then expect that investors could start to position again for a softer dollar in early March ahead of the 12 March release of the February CPI data. We suspect that core inflation will drop back to a 0.2% MoM reading.

US markets are closed for Presidents' Day today and there is not a whole lot on the US calendar this week. We would pick out Wednesday perhaps being the key day given the release of the January FOMC minutes and also the quarterly earnings for the red hot Nvidia. Other data includes consumer confidence (Tuesday) and existing home sales (Thursday).

Arguably DXY should have rallied more on last week's back-up in short-term US rates. On paper, we would expect DXY to hold in the 104-105 range this week. Technically, however, DXY did put in a decent reversal and any surprise strength in the euro this week (see below) could trigger an unexpected break below 104.00.

Chris Turner

EUR: Wage data and PMIs in focus this week

EUR/USD has now completely recouped last week's losses on the above-expected US January CPI release. As above, the US calendar looks unlikely to have much of an impact this week. However, in the eurozone we are very much interested in i) tomorrow's ECB survey of negotiated wage rates, and ii) Thursday's release of the flash PMIs for February.

On the former, the issue will be how much, if at all, negotiated wages slowed from the prior survey of around 4.7% year-on-year. Here, a high figure could raise expectations that the broader wage release in late April will also come in on the high side and finally wipe out the chances (now priced at 36%) that the ECB will cut rates in April. On the latter, soft PMI releases did trigger independent euro weakness last Autumn. Any better-than-expected readings for February could also help the euro. For reference, consensus currently expects weak bounces in the eurozone PMI readings, but all readings remaining in contractionary territory.

One week implied EUR/USD volatility at 5% suggests investors think EUR/USD is going nowhere fast. That is a sign to avoid chasing break-outs. Our baseline would assume EUR/USD traces out a 1.0700-1.0800/0810 range this week. But look out for those eurozone data event risks for a possible topside move.

Chris Turner

ZAR: Look out for the budget on Wednesday

Three-month implied volatility in USD/ZAR has not been this low since early 2020. Becalmed global conditions are clearly playing a role here. But this Wednesday sees the Finance Minister announce South Africa's annual and pre-election budget. Annual budgets have historically posed challenges to the rand and this year's may be no exception.

In focus is whether the ANC government chooses to ramp up social spending ahead of elections this summer. There is also some speculation that the government could dip into the central bank's

Gold and FX Contingency Reserve Account to finance spending. The rand would certainly get hit were the latter to be the case.

We do therefore see upside risks to USD/ZAR this week and do think that implied volatility is priced too low.

Chris Turner

CEE: Remaining bearish on FX

Today the calendar is basically empty, and together with the US holidays, we should have a quiet start to the week. Tomorrow in Poland, labour market, industrial production and PPI data will be released. Industrial production should be revived after December's slump. On Wednesday, we will see retail sales in Poland. On Thursday, the Central Bank of Turkey is scheduled to meet and is expected to keep rates at 45%. On Friday in the Czech Republic, consumer confidence will be released.

We remain bearish on CEE FX this week. EUR/CZK may have peaked at 25.50 but we don't see much reason for a move lower. Due to the fall in rates over the last two weeks, EUR/CZK will remain around 25.40. PLN also remains under pressure due to the fact that market rates have hit their ceiling probably and the core has moved higher. The interest rate differential thus points to 4.360 EUR/PLN at the moment. We see a similar story in the HUF market and will likely test 390 EUR/HUF this week.

Frantisek Taborsky

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com