

## FX Daily: Corrective forces in play

A burgeoning sell-off in US tech stocks and ongoing volatility in the metals markets are providing many cross-currents for FX. Yet interest rate volatility remains low, providing some insulation to those heavily invested in FX carry trades. Rate meetings in the eurozone, UK and Czechia are the focus for today's session, as is some second-tier US jobs data



UK political uncertainty remains one of the key threats to sterling this year

### ➔ USD: Tech stocks attracting attention

One of the strongest early-year trends in FX markets – the backing of procyclical G10 and emerging market currencies – is undergoing a correction this week. We've seen some significant reversals in very popular pairs like USD/ZAR and USD/MXN. This has had nothing to do with interest rate markets, which are being very well-behaved, but more to do with some stretched positioning and perhaps now a more difficult US equity environment. The focus this week is on the underperformance of US tech stocks after an AI tool launched by Anthropic challenged the more conventional software companies. It is very hard to say that this US tech correction has legs, but a fully invested buy-side does look vulnerable to any bad news.

At the same time, we are seeing continued volatility in the metals market. Big sell-offs in silver are seen as mildly positive for the dollar, with the causation seemingly running from silver to FX these

days. Please see our commodities team's take on events [here](#). The idea of a reset and not a reversal here seems to be backed up by large flows into Silver ETFs on Monday.

What does this all mean for the dollar? A more difficult equity environment would typically see a flight from risk and a flight from procyclical currencies into the dollar. That is what is probably lending the dollar a little support this week. But dollar gains do not need to go too far from here. A US-led equity correction would hit US activity hard, trigger more aggressive Fed easing and ultimately weaken the dollar. At the same time, the US diversification theme (or at least the increased dollar hedging theme) looks likely to hang over the dollar for most of the year.

For today, the macro focus will be on second-tier US jobs data. The weekly initial claims data have been low recently, near 210k, but more interest may be had in the December JOLTS job opening data released at 1600 CET. The focus will be on the layoffs figure to gauge whether the no-hire, no-fire economy is deteriorating. The Fed's Beige Book ahead of the January FOMC meeting showed no deterioration in the jobs market, and thus a notable spike in layoffs looks unlikely today.

DXY can probably stay gently bid, especially as USD/JPY explores the upside ahead of Sunday's [election in Japan](#). DXY could edge up to the 98.00 area and certainly has unwound a lot of the technical bearishness seen at the start of last week. But the case for DXY to go a lot higher has yet to be made.

*Chris Turner*

## ➔ EUR: Lagarde will be asked about the euro

The above cross-currents have weighed on EUR/USD this week. But arguably it has remained quite resilient – especially given the recent spike in energy prices. Today's challenge to EUR/USD will come from today's ECB press conference at 1445CET. Here, President Lagarde will likely be quizzed over the ECB's reaction function to euro strength. It is not just EUR/USD that has been strong. The ECB's nominal trade-weighted euro is at multi-decade highs and, more importantly, appreciating at a 7-8% YoY rate.

My colleague Carsten Brzeski discusses how the ECB might react to a [strong euro here](#). Comments from Lagarde, such as that the ECB is 'monitoring exchange rates closely' or any mention of downside risks to inflation having increased, would hit, but not bury EUR/USD. Sub 1.1770 today could open up the 1.1700/1720 area, but we doubt EUR/USD needs to go much lower than that near term.

*Chris Turner*

## ⬇️ GBP: PM Leadership challenge gathers pace

We may be reading a little too much into sterling price action, but it did seem to sell off yesterday afternoon after PM Keir Starmer faced a confrontation from his own Labour MPs in the House of Commons. Some would argue that Angela Rayner effectively kicked off her leadership bid by calling for greater scrutiny of the vetting process used for last year's appointment of Peter Mandelson as UK ambassador to the US.

The prospect of a change in both prime minister and chancellor remains one of the key threats to sterling this year, where a replacement of the PM by Rayner would mark a clear shift to the left and add further doubts to the UK fiscal position. A by-election later this month and local elections

in May mean that it will be a noisy few months for UK politics.

This week's EUR/GBP dip could be the low point this quarter. For today, look out for the Bank of England statement at 1300CET. It looks a little early for the BoE to turn more dovish, [though lower inflation into April](#) means that we are still calling for two cuts in the first half and a weaker pound.

*Chris Turner*

## 📌 CEE: Central banks are a little closer to rate cuts again

Today is our busiest day in the CEE region this week, with the main focus on the Czech Republic and Poland. This morning, figures will show January inflation in the Czech Republic, which, according to our estimate, should drop from 2.1% to 1.1% YoY, well below market expectations. However, it is necessary to mention that January inflation in the Czech Republic has the highest volatility in the CEE region due to the concentration of the New Year repricing. Therefore, the range of estimates is from 1.1-2.0%. We believe that 1.0-1.4% should be enough for the Czech National Bank to cut rates in March. In case inflation surprises below 1.0%, a rate cut can be expected at today's meeting. On the other hand, if inflation is in the range of 1.5-1.7%, we expect the CNB to wait until May for more data and clarity.

However, later today we will see the CNB meeting, where, in our scenario, rates should remain unchanged at 3.50% for now. The main focus will be on the new forecast and the vote split. The inflation outlook should move significantly lower, but the question is how the CNB sees 2027.

Yesterday, the National Bank of Poland left rates unchanged at 4.00% and today we will see the governor's press conference. Yesterday's decision was taken by the market as hawkish news, but the stance, in our opinion, indicates a dovish path. The central bank mentioned that it expects inflation to be close to target while we see January inflation below 2%. Today's press conference should have a similar dovish tone as in January due to the absence of new data, and at the same time further inflation prints should confirm another path to rate cuts.

Overall, both the koruna and the zloty can be expected to see more downward pressure. EUR/CZK has moved into our targeted range of 24.350-400, which we have been mentioning since the beginning of the year; however, a low inflation number would bring further upside to the range of 24.400-500 in our view. EUR/PLN remains anchored in the range of 4.200-230, but a dovish presser would likely mean a move above the upper edge.

*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)

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