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FX

FX Daily: Cutting through the AI noise

Markets seemed to have settled a little after Monday's weakness in equities spread across to bank stocks. This volatility in equity markets at multi-year highs probably reflects stretched valuation levels and a fully-invested buy-side. It looks too early to expect the dollar to receive broad support from these themes, and Asian FX could find new friends



Equity weakness on the back of investors chasing 'AI losers' continues to grab the headlines

➔ USD: Bounced around by the 'AI losers' story

It has been a theme for a few weeks now, but equity weakness on the back of investors chasing 'AI losers' continues to grab the headlines. Yesterday, it was the turn of a Citrini Research report suggesting that AI will cause mass unemployment that will continue to weigh on professional services, including the banking sector. None of this, so far, has delivered the knock-out blow to equity markets, where the S&P 500 has gyrated in a narrow 6775-7000 range since the start of the year. Tomorrow evening's Nvidia release might be the next big story, however.

That said, global equity markets are showing pockets of strength. In Asia, the semiconductor-heavy benchmark indices in Korea and Taiwan continue to power ahead as investors also keep an eye on the AI winners. On the subject of winners, [Asia is seen as one of the key beneficiaries](#) of the IEEPA tariff ruling, and Asian exporters have already been performing well. Data yesterday showed some very strong early February export figures from Korea. And combined with other measures to attract capital and FX earnings back onshore, we have a call that USD/KRW can trade back down to 1425 by the end of March.

As to the broader dollar trend, it remains quite mixed. Inputs into the story today will be the weekly ADP jobs figures, consumer confidence, Fed speakers and President Trump's State of the Union address tonight. In a [speech yesterday](#), the Fed's Christopher Waller laid out the risks that the strong January NFP data could well be revised lower, given that it was inconsistent with other labour market data. A soft ADP print today might prove a mild dollar negative in that case. On consumer confidence, the divergence between very pessimistic consumer surveys and [strong actual spending](#) remains acute. A modest pick-up in February consumer confidence data today then looks unlikely to move the needle on the dollar. We also have a handful of Fed speakers, where the likes of Goolsbee and Bostic sit at the more hawkish end of the spectrum. The DXY dollar index has stalled at 98.00 on a couple of occasions now, and we prefer a 97.50-98.00 range here.

For those interested in whether the dollar is undergoing a cyclical or, more worrying, structural decline, please see a [new report](#) we published yesterday on the topic. We also have a webinar on the topic at 1400 CET – please use [this link](#) to join.

Chris Turner

➔ **EUR: Very steady**

Equity weakness caused a modest setback in EUR/USD yesterday, despite some [decent German Ifo data](#). We don't see many events out of Europe that will drive EUR/USD today, and barring another large leg lower in global equities (German Dax futures are called modestly higher at the open), we would expect EUR/USD to hold 1.1750/60 support.

Chris Turner

⬇ **GBP: BoE speakers in focus**

The highlight for sterling today should be parliamentary testimony from four Bank of England rate setters and what it means for a potential March rate cut. We know Alan Taylor is a dove who is already voting for a cut. We know Huw Pill is a dyed-in-the-wool hawk, who looks likely to continue dissenting against BoE easing this year. Megan Greene has been hawkish and looks unlikely to flip soon, but most interesting and most likely to swing the March vote to a rate cut should be Governor Andrew Bailey. Commentary that he has seen enough to justify a March rate cut could firm up that pricing in money markets (a 25bp cut is now 80% priced) and even push the market to speculating on more than 50bp in BoE easing this year.

EUR/GBP is steady in a tight 0.8720-0.8745 range, and we have a bias to 0.8800.

Chris Turner

➔ HUF: The restart of cutting cycle

The big day for the National Bank of Hungary is here, and [we expect a restart of the cutting cycle](#) after the last rate cut in September 2024. All the important metrics and market developments suggest that this is imminent. January inflation showed a sharp decline to 2.1%, well below the NBH target, and most underlying measures also show a favourable trend. Although the later months of this year should show some inflation rebound, this should still be within the tolerance of the central bank. At the same time, the trend in the CEE region points to weaker inflation generally supported by strong FX, cheaper energy and food and Chinese imports pushing down goods prices, while service prices remain elevated. Overall, we expect the NBH to join the NBP and CNB in discussing rate cuts.

Today's decision to cut rates seems like a done deal from the market's perspective, and at the same time, another rate cut in March in our forecast should not be a surprise. Even so, the focus will be mainly on the central bank's forward guidance. Although near-term cuts are priced in, we believe that the market can price in a lower terminal rate than the current 5.25%.

From the market's perspective, the main question should be the direction of EUR/HUF. The currency pair is only moving just above local lows, the lowest in the last two years, which is one of the reasons why the NBH is willing to return to rate cuts. At the same time, we must keep in mind the heavy long positioning that the market has built up either as a high carry view or as a pre-election view. It is this ratio that the market will test today and show what part can be attributed to the carry view. Although the market is pricing in today's rate cut, some upward pressure on EUR/HUF can be expected. On the other hand, the market has repeatedly shown that any upward movements are a good opportunity for new HUF longs, which may be the case today as well. Therefore, overall, we do not expect much from FX today at levels around 379-380, although intraday volatility will be increased.

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