

FX Daily: Data can still lift the dollar

US CPI numbers were in line with consensus yesterday and offered more room for markets to raise Fed rate expectations. This hasn't translated into a dollar rally, but we could still see at least some support coming the greenback's way as US data for January should prove strong. Polish inflation should confirm a different inflation story in the CEE region



📈 USD: Still eyes on data

There were no fireworks in the FX market yesterday as January's [CPI figures matched expectations](#). Evidence of a slowdown in the disinflation process is giving an opportunity to the Federal Reserve and markets to feel more comfortable about more tightening beyond March. Fed Funds futures are now pricing in 68bp of extra hikes, having added around 7bp in price after the inflation release. This has, however, failed to translate into a materially stronger dollar for now, which is largely a consequence of some resilience in global risk sentiment despite the reinforcing of hawkish Fed bets.

We think data will remain the key driver for the dollar and the global risk environment, as the depth of the US economic slowdown is still a key driver of rate expectations, especially when it comes to the timing, size and pace of Fed easing in the medium term.

We think that January's US data may come in rather strong throughout on the back of weather-related factors and this may keep short-term US rates and the dollar supported in the near term. Today, we'll keep a close eye on retail sales data, industrial production and empire manufacturing, which should all improve.

Francesco Pesole

⬇️ EUR: Lagarde's speech may be a non-event

EUR/USD remains primarily a dollar story, and despite having survived the US CPI risk event, we continue to see some downside risks in the near term on the back of raising bets on Fed tightening and a lack of drivers from the euro side.

In this sense, we don't think that today's speech by European Central Bank President Christine Lagarde will drive major market moves. After her attempts and those (more successful) of her governing council colleagues to keep rate expectations high in the eurozone, we don't see how there is much she could add to the central bank's rhetoric at this stage. The release of eurozone-aggregate industrial production data for December should not have any material market impact.

We see room for EUR/USD to slip back to 1.0650/1.0700 by the end of this week on the back of a strengthening dollar.

Francesco Pesole

➡️ GBP: Big inflation miss

This morning's UK inflation data missed estimates (5.8% vs est. 6.2% year-on-year). Looking at the details, this is also true of 'core services', the index we know the Bank of England is paying closest attention to because it includes the slowest-moving/most persistent components of the inflation basket. It seems like hospitality is doing some of the work here. A word of caution - by definition, the BoE's insistence on looking at 'inflation persistence' means it's not looking at single-month changes in inflation. But this nevertheless goes firmly in the opposite direction of what the central bank has forecast. We would still expect a 25bp hike in March, but if this trend continues then it would heavily lean towards a pause in May.

Francesco Pesole

⬆️ PLN: Poland joining the inflation club

As usual this week, Poland will be in the spotlight today again. We expect January inflation to jump from 16.6% to 18.1% year-on-year, above market expectations. Last Friday, we saw numbers from [Hungary](#) and [the Czech Republic](#) surprise to the upside by 50bp and 40bp, respectively, and we should see a similar picture today in Poland. The market has already partially corrected expectations for the first rate cut by the National Bank of Poland in recent days, but we believe there is still room for market rates to go up at the short end of the curve.

And today's inflation should provide that impetus. Thus, a further improvement in the rate differential could at least stop the Polish zloty from weakening for a while. However, the Polish story does not end today. On Thursday, we will see the European Court of Justice's decision on the FX mortgage case and on Friday, S&P's rating review will be published. The ECJ decision is probably the main reason why the zloty has been underperforming the region recently. While we do not

expect the sovereign rating to be downgraded, after the Hungarian experience, the market may wonder whether the delay in accessing EU money will be a problem for rating agencies in the case of Poland as well. Thus, today the zloty could look towards 4.74 EUR/PLN. However, for the rest of the week we remain bearish and rather expect weaker values near 4.80 EUR/PLN.

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