

FX Daily: Data can trigger new leg up in USD

Our view for this week remains that data has the most potential to steer USD crosses, and today's busy US calendar offers a couple of opportunities. ADP payrolls will be watched closely given the delay in official data, alongside the ISM services survey. Our call is that decent-enough figures could take EUR/USD back below 1.180 in the next couple of days



We remain relatively optimistic on further USD recovery

USD: ADP and ISM services in focus

The dollar rally is giving back some of Monday's gains, but volatility has continued to decline. Our view remains unchanged: data will set the tone for the next move in USD crosses. Today's calendar includes a couple of releases that could act as catalysts.

First, ADP payrolls, which will offer the best read on January labour market conditions given the postponement of official figures (we believe by about a week, as the government shutdown ended yesterday). Consensus for ADP is 45k, which should help build confidence in an equally decent official payroll figure. Considering the Fed's more hawkish stance at the January meeting, some clear deterioration in the jobs market would be needed for a cut to be priced before June.

ISM services are also due today. Consensus is upbeat, expecting a near one point increase to 54.4. Recall that a strong manufacturing ISM on Monday prompted some decent dollar gains.

We see the balance of risks slightly tilted to the upside today, as positive data could act as a catalyst for a bit more USD recovery amid an already supportive macro backdrop relative to spot levels.

The fact that the dollar didn't suffer yesterday from the US tech selloff is an indication that – while its safe haven value is still diminished – market jitters about a US-driven USD selloff have eased significantly.

Francesco Pesole

📉 EUR: We expect a return below 1.180

The last data input before tomorrow's ECB meeting ([preview here](#)) is today's eurozone flash CPI estimate for January. Yesterday's surprise drop in French inflation left little to no mark on FX, and we doubt today's eurozone-wide figures have much impact potential. Anyway, expectations are for a slowdown from 1.9% to 1.7%, with core unchanged at 2.3%. Nothing there to trigger a meaningful change of tone by the ECB tomorrow, in our view.

EUR/USD has climbed back to 1.183, meaning it's now trading around 0.8% above its short-term fair value in our calculations. If we are right to think US data should be relatively good today, we can see some pressure to trade back below 1.180 in the next couple of days.

Francesco Pesole

📉 DKK: Surprisingly, no intervention in January

The Danish central bank announced yesterday that it didn't intervene in the FX market in January, contradicting what we and other observers thought. This is good news as it signals that pressure on the DKK spot was not intense enough to break above the 0.2% upper band (an unofficial one) from the 7.460 central peg. The less positive news is that the kind of volatility we saw in EUR/DKK forward points – e.g. 12-month jumping from -250 to -200 in the first week of January – was not being exacerbated by a knock-on liquidity effect from spot FX intervention (as we suspected) but entirely driven by speculation of higher interest rates in Denmark. That was directly linked to the Greenland risk, in our assessment.

Anyway, EUR/DKK spot and forwards are back to normal with the Greenland crisis behind us. Should that risk reignite, we would expect a repeat of those dynamics: contained spot reaction with much more action in forwards, which isn't uncharacteristic of pegged currencies with well-equipped central banks reserve-wise.

Our view for EUR/DKK remains neutral, with some upside risks due to the relatively wide rate differential. A return of FX sales via spot intervention (last happened in March 2020) remains a tangible risk, and a preferable first line of defence before a rate hike.

Francesco Pesole

📌 PLN: Zloty wakes up under pressure from dovish central bank

The National Bank of Poland is likely to leave rates unchanged at 4.00% today. This is supported by the latest wage figures for December, which surprised upwards, and solid GDP figures. However, as always in recent months, the NBP's reaction function is not clear and today's rate cut would not be a surprise either. However, we assume that the MPC would like to wait for a new forecast and inflation figures. Surveys and market pricing also indicate a similar discussion. However, the decision itself may not be that important as it does not affect the central bank's terminal rate. We expect a rate cut in March and another in May and September, with a terminal rate of 3.25%. The main attention will therefore be on tomorrow's press conference with Governor Adam Glapinski.

The market is currently pricing in roughly balanced probabilities with a slight preference for a cut today. The terminal rate is priced at around 3.25% if we assume a fixing above the policy rate at the end of the cycle. This is in line with our forecast, but we have not yet seen full confirmation from the NBP that this is the way forward. We see a chance of a more dovish direction, so that it may turn out that the MPC is willing to go even further. This is also the direction of the market in recent days, and we have seen a significant tightening of the interest rate differential in the last week alone.

EUR/PLN has been trading in a very narrow range since the beginning of the year 4.200-230. If the dovish bias were confirmed, the NBP would cut rates today or indicate a willingness to cut rates further, faster and lower than the market expects. We can expect a breakthrough of the upper edge of the range, which rates are already indicating at this moment. Therefore, we go into today's meeting and tomorrow's press conference with a bearish bias on the zloty.

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