FX Daily: Data taking back the wheel

Markets are turning a blind eye to geopolitical developments (both Venezuela and Greenland), and data should regain a lot of centrality as a key market driver for the second half of the week. Today, ADP, JOLTS and ISM services releases carry some downside risks for the dollar. The outlook for more rate cuts suggests weaker FX in CEE

Markets are focused on US jobs data this week, as geopolitics take a back seat – for now

USD: Data might hinder momentum

The Venezuelan shock has largely faded. Oil softened yesterday but remains near pre 4 January levels, equities extended gains, and FX markets have turned away from geopolitics. This reflects the post 'Liberation Day' reluctance to trade the headlines and lean to more sanguine views.

The dollar regained some ground yesterday – but that is probably due to some seasonal inflows and a modest uptick in front-end swap rates rather than geopolitics. Unless the US escalates threats on Greenland or intervenes again in Venezuela, markets should refocus on data in the second half of the week.

Today, ISM services are expected to come in soft, but it will probably be ADP (consensus 50k) and JOLTS job surveys driving price action. Interestingly, ADP payrolls undershot consensus in seven of the last 10 prints, and given our dovish view on the US jobs market, we are inclined to see US jobs data events as bearing asymmetrical downside risks for the dollar.

Beyond today, our short-term view remains neutral to slightly bullish on the greenback.

Francesco Pesole

EUR: Inflation may undershoot, ECB implications limited though

German inflation undershot consensus yesterday, decelerating to 1.8% YoY (2.0% in EU harmonised terms). As our economist notes here, the disinflation appears broad-based – i.e., beyond the base effect – with prices falling in leisure, clothing, and food.

That raises the chance of a sub-2.0% print today (consensus is at 2.0%) for the eurozone CPI flash estimate. Expectations are for the core to remain unchanged at 2.4%, though; that is a measure that needs to start trending lower more decisively to revive any dovish dissent within the ECB.

For now, implications for ECB rate expectations are likely to be limited unless inflation starts undershooting materially and consistently. By extension, the euro may not be taking many cues from the print and will remain almost entirely driven by the dollar leg.

Francesco Pesole

CZK: Inflation noise amid budget mismatch

The Ministry of Finance reported a public budget deficit of CZK291bn in 2025 against the CZK241bn plan. This is more than we expected and very unusual in the Czech Republic, where the deficit exceeded the Ministry of Finance's plan for the first time in 16 years. However, the details suggest that the main difference is in the EU funds flow, which means that total public finances may still be close to the government's previous estimate of around 2.3-2.4% of GDP in our estimates (ESA terms), and the missing money will come later.

At the same time, the Ministry of Finance's funding strategy, although without a deficit assumption for this year, suggests a slightly lower bond supply than last year. This is due to the strong pre-financing of the Ministry of Finance last year. Overall, in line with our view before the budget result was published, we see Czech government bonds as attractive.

Today, the story will be completed by the December inflation figures. We expect an increase from 2.1% to 2.5%, slightly above market expectations, while the Czech National Bank expects 2.3% in its November forecast. The main question is food prices, which have been surprisingly volatile in recent months, increasing the level of surprise. However, November brought some easing in core inflation as well, and it will be interesting if we see any signs of confirmation. EUR/CZK has tested local lows since the beginning of the year, but the rally in rates and the tightening of the rate differential suggest higher levels around 24.300. However, higher inflation would suggest CZK stays at stronger levels for now and the weakening will come closer to the CNB meeting and January inflation release in early February. This Friday's CNB minutes could be another dovish trigger.

Frantisek Taborsky

CEE: Rates still point to a weaker region

Poland and Romania are trading again after yesterday's holiday, but overall the CEE region looks quiet and, given the lack of data, we see little movement in FX. Still, the region is holding onto year-end gains even though the rally in rates and the prospect of lower inflation across the board would suggest weaker FX. The last two days have also seen a stronger US dollar. However, we will see more data and the first central bank meeting in the region is only next week.

Therefore, the region may remain in this sleepy mode until the end of the week and start trading fully next week. Just to be clear, based on our rate differential models, we see a fairer EUR/PLN around 4.230 and EUR/HUF around 388. Of course, this does not mean that this is the next step, but that is why we remain cautious and rather bearish on CEE FX for now, until the long positioning from December is cleared.

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