

## FX Daily: Dodged bullet

Jay Powell did not rock markets as he acknowledged more strong data can imply a higher peak rate but still appeared to be hanging on to the disinflation story. The dollar still faces moderate upside risks this week, but stabilisation looks more likely today. Separately, Poland may confirm stable rates, with the zloty set to further underperform the region



Jerome Powell at the Economic Club of Washington

### ➔ USD: No hawkish surprise by Powell

Yesterday's [speech by Federal Reserve Chair Jerome Powell](#) did not include the hawkish surprise some had feared. Ultimately, Powell probably delivered the minimum amount of pushback against dovish speculation required by the strong January jobs report. As we observed yesterday, there was ample room to surprise on the hawkish side, but it clearly seems that Powell is reluctant to drop his relatively sanguine stance on the disinflation narrative.

Risk assets probably dodged a bullet yesterday, and the dollar momentum softened for the first time in three days. So, what now for the dollar? We think markets may feel relatively comfortable with the current pricing for a 5.15% peak rate for now, even though risks are skewed towards another 10bp of tightening being added into the curve. This means that the dollar's upward correction may have a bit more to run, but we doubt this will morph into a sustained USD uptrend

from this point on. If nothing else because Powell and other Fed speakers indicated that more evidence from the data is needed to shift to more hawkish guidance.

So once again, it will all be about data. Today, the US calendar is rather quiet on this front but there is plenty of Fed speak. We'll hear from John Williams, Lisa Cook, Raphael Bostic, Neel Kashkari and Christopher Waller. There is room for the general Fed rhetoric to stay on the hawkish side and while we think the absence of key data can favour some stabilisation in the dollar today, risks are skewed towards another small leg higher in the greenback.

*Francesco Pesole*

## ➔ EUR: EUR/USD mostly a dollar story

Yesterday's decision by the European Central Bank to cut rates on government deposits to encourage fund withdrawals should not have strong implications for the euro for the moment. The policy discussion remains much more central, with Isabel Schnabel delivering hawkish statements yesterday and warning against the risk of inflation becoming entrenched in the medium term.

The process of hawkish re-tuning by ECB officials after last week's market reaction to President Christine Lagarde's press conference looks likely to continue, although it appears to have been largely factored in by markets. There is only one speaker scheduled today, Klaas Knot (a hawk) and no interesting data releases in the eurozone.

EUR/USD broke below 1.0700 yesterday before rebounding. We think that further explorations below 1.0700 are possible in the coming days, but it looks like they will mostly depend on dollar moves.

*Francesco Pesole*

## ➔ GBP: Don't read too much into a weaker EUR/GBP

Yesterday's comments by MPC member Jon Cunliffe were mostly focused on paving the way for a "digital pound", rather than on monetary policy. Despite being a rather interesting discussion for the future, this is not impacting the pound's exchange rate at the moment.

EUR/GBP is pressing through the 0.8900 support this morning, but we doubt this is the start of a longer downtrend in the pair. The Bank of England's pushback against dovish rate speculation is happening in tandem with the ECB and we don't see a key catalyst for the two currencies to dramatically diverge in the current environment.

The UK data calendar is empty today, and there are no scheduled BoE speakers. Tomorrow, Governor Andrew Bailey will testify to parliament.

*Francesco Pesole*

## ⬇️ PLN: NBP to confirm stable rates

Today we have a meeting of the National Bank of Poland (NBP) on the agenda. We expect rates to remain unchanged, as they have for the last four meetings. This is in line with market expectations and it is hard to expect any surprises. However, more interesting will be Governor Adam Glapiński's press conference, which we will see tomorrow. Looking ahead, the key to the next steps in

monetary policy will be the inflation number for January, which will not be released until next week. Markets are currently pricing in the first rate cut for the September NBP meeting and nearly 100bp by year-end. We do not expect a rate change this year, but today's meeting is unlikely to change those expectations and we will have to wait until next week.

In the FX market, the Polish zloty has moved to its weakest level since last October following the US dollar rally, and it is hard for us to find reasons to be positive at the moment, at least until the Court of Justice of the European Union's decision on FX mortgages. Until then, we cannot rule out EUR/PLN touching 4.80. In the short term, the rise in PLN market rates and improvement in the interest rate differential should stop further depreciation for now. Unless we see more pressure from the US dollar side, we believe the zloty will erase some of the recent losses and return to the 4.72-74 EUR/PLN range.

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