

FX Daily: US dollar index to hit 100

With PMIs in the eurozone and UK tomorrow posing further downside risks to the euro and pound, the yen unlikely to be helped by tonight's CPI numbers and commodity currencies still pressured, DXY looks set to hit the 100 mark before the weekend



Source: Shutterstock

O USD: Bull trend unlikely to reverse

Global risk sentiment keeps oscillating as markets weigh the latest developments on the coronavirus (rising fears of it spreading outside China despite the number of cases slowing), and the dollar remains the absolute winner. Equities continue to show impressive resilience, which has contributed to the drop in the yen. Once again, this is not corresponding to any rebound in pro-cyclical currencies, which instead have been the key underperformers overnight. It really seems like the dollar is the only game in town at the moment, and we do not see a catalyst for an inversion in the bull trend before the end of this week. With PMIs in the eurozone and UK tomorrow posing more downside risks to the euro and pound, the yen unlikely to be helped by CPI numbers tonight and commodity currencies still pressured, DXY looks set to hit the 100 mark before the weekend.



EUR: Outdated ECB minutes to give no help

Despite showing some resilience to the strong dollar yesterday, we still think the EUR/USD is more likely to head lower than rebound in the next few days. While we expect tomorrow's PMIs to put additional pressure on the pair, we think today's ECB minutes may have a muted impact. The release will cover the 23 January meeting, when the coronavirus had yet to emerge as a significant downside factor to the eurozone economy, and before the disappointing growth numbers. In turn, most attention will be on details around the strategy review but, given the length of the process (President Christine Lagarde anticipated it should last until year-end), markets may not be particularly prone to jump to conclusions regarding monetary policy implications just yet.

😍 GBP: Selling pressure on cable to persist

Strong inflation numbers yesterday pushed GBP/USD to levels that were likely seen as attractive to enter short positions on the pair. We would not be surprised to see this "sell-the-rally" approach by the markets continue as the uncertainty related to the UK-EU trade negotiations warrants a weaker GBP, in our view. Today, UK retail sales for January will be closely watched: the gauge has been quite fragile of late and markets expect a rebound, but we still think it is early to deduce any post-election bounce in activity. Even if retail sales surprise on the upside, we may see (like yesterday) GBP/USD gains fade quickly.

乡 AUD: Mixed labour data warrants RBA rethink

The Australian labour data showed a rebound in the unemployment rate to 5.3%, although some good news came from a recovery in full-time hiring. We think this will likely put some pressure on the Reserve Bank of Australia to re-enter its easing cycle soon and the Aussie dollar is set to be a key underperformer in coming months.

Author

Francesco Pesole FX Strategist francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.