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FX

FX Daily: Dollar may come out stronger after Fed drama

US CPI was softer than expected yesterday. That reinforces our call for a Fed cut in March, but we doubt markets will join that view for a few more weeks. The dollar has the opportunity to regain more than it lost due to some potential hawkish tilt after the Powell criminal probe. Meanwhile, we'll keep monitoring JPY today alongside Greenland talks



↑ USD: We retain a short-term positive bias

US inflation came in softer than consensus and notably below our own expectation of a 0.4% month-on-month core reading. However, yesterday's price action actually reinforced our short-term positive bias on the dollar: despite the soft CPI print, Fed pricing barely moved, and the dollar quickly reappreciated.

Part of this may reflect market reluctance to read too much into the CPI data, given lingering shutdown-related distortions. But it also signals that the perceived risk to the Fed's independence is continuing to fade – helped by a sense that the criminal investigation into Chair Powell may not progress much further, and by pushback from some GOP lawmakers. We still see a reasonable chance the dollar ultimately emerges stronger from this episode, as Powell could be viewed as more resolutely hawkish in an effort to reinforce Fed independence.

At the same time, the main takeaway from yesterday's CPI is the persistent softness in goods prices, underscoring again how muted the tariff impact on inflation has been. Many tariff-exposed categories remained weak, including appliances (-4.3% MoM), furniture (-0.4%), new vehicles (0.0%), and video and audio equipment (-0.4%). This is a striking pattern and suggests US retailers are continuing to compress margins. All in all, it strengthens our conviction in a March Fed cut, even if markets may take time to fully embrace that view.

Today's attention turns to November PPI (core expected at 0.2% MoM) and retail sales, which should be relatively firm. A busy slate of Fed speakers – Paulson, Miran, Kashkari, Bostic, and Williams – will also be closely watched for any subtle hawkish tilt in support of Powell and the institution's independence.

We may also get the Supreme Court ruling on tariffs today, widely expected to be unfavourable. If so, expect substantial noise from the Trump administration, but markets are unlikely to be surprised. Our base case is for a modestly positive dollar reaction.

Francesco Pesole

↓ EUR: Greenland talks may not have major market impact

A US delegation, including JD Vance and Marco Rubio, will meet today with officials from Denmark and Greenland. So far, the US threats regarding Greenland have had little discernible market impact – beyond [some moves in EUR/DKK forwards](#) – so there is limited risk premium to unwind even if the talks point toward a cooperative outcome. Still, any progress could remove a lingering geopolitical “black swan” risk for European currencies.

Indeed, there appears to be some room for a deal. That would likely hinge on the US stepping back from any notion of “ownership” of Greenland – an idea strongly opposed by both Denmark and Greenland – in exchange for a combination of economic partnerships and an expanded US military presence.

Constructive headlines could slow the EUR/USD decline a touch, but we continue to target 1.1600 in the coming days.

Francesco Pesole

↓ JPY: Time to test 160

There seems to be no way of stopping the USD/JPY rally. Speculation of snap elections is mounting, and the return of some degree of political risk premium is offering another chance to test Japan's tolerance band on its currency. Ongoing Japan-China diplomatic tensions are also adding fuel to the fire.

On [Monday](#), we thought upside risks extended to 160, and while the rally may slow close to

that mark on intervention fears, it's looking increasingly likely that level will be ultimately tested. After all, in July 2024, Japan let the pair rise above 160 and only intervened when it nearly touched 162. It's hard to pick the right level for intervention, but if the BoJ hasn't moved so far, it's reasonable to expect it'll just wait for a 160+ print.

For reference, the 11 July 2024 USD/JPY move on the first intervention was -1.8%. Interestingly, back then, CFTC net non-commercial positions on the yen were -52% of open interest, and they are now instead 3% in net-long territory, even if spot action argues otherwise.

What matters the most is whether FX interventions can drive a sustainable USD/JPY recovery. As a rule of thumb, they don't on their own. In 2024, they effectively curbed upside pressure in the short term, but the follow-up drop in USD/JPY was entirely a function of US 2-year swap rates collapsing by some 50bp in the following month. That doesn't seem like a plausible scenario at this stage, and the risk of snap elections keeps markets reluctant to price in any BoJ hike before this summer.

Francesco Pesole

📌 **PLN: Lower inflation puts rate cut discussion back on the table**

The National Bank of Poland [is likely to leave rates unchanged](#) at 4.00% after four consecutive rate cuts from September to December. However, December inflation surprised to the downside in Poland again, falling from 2.5% to 2.4% YoY. This has put the discussion of another rate cut back on the table, and our economists see a 35% chance of a rate cut today.

Surveys mostly show no change for today's meeting, but market pricing has it at a 50/50 chance. MPC members have also indicated that a rate cut is indeed on the table in communication in recent days. From a forward guidance perspective, tomorrow's press conference will be more interesting. The market is currently pricing the terminal rate at 3.40%, 10bp higher than its recent lows. However, our economists remain on the dovish side with the inflation profile and expectation of rate cuts to 3.25% this year. The question is when the NBP will want to take a break and wait for the effects of the monetary policy easing in previous months.

EUR/PLN has been trading almost unchanged since the beginning of the year and shows noticeably lower volatility among CEE peers. We see EUR/PLN and PLN rates being significantly better priced compared to peers, which gives less opportunity for movement. Therefore, we do not expect much today despite the uncertainty. The market believes that even if a rate cut does not come today, it is only a matter of time before the NBP loosens policy again.

The biggest risk is the governor's communication and potentially significant deviations from

previous communication, which could put EUR/PLN in motion. For now, 4.210 seems like a fair level and the risk for the next two days seems balanced given the difficult-to-predict NBP communication.

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