

## FX Daily: Dollar powers ahead

Friday's strong US jobs release has provided another leg higher for the dollar. It is hard to see the dollar trend changing this week given the prospect of another strong set of US inflation data, which will increasingly raise the question of whether the Fed needs to cut rates this year at all. Focus will also remain on the beleaguered pound, where Wednesday sees new inflation figures and a 10-year gilt auction. Also look out for rate meetings in Poland and Romania



We think strong US inflation data this week should keep US rates and the dollar on the firm side

### USD: Strong dollar pressure tests the system

Friday's better-than-expected [US December jobs data](#) drove the dollar cleanly higher across the board. This feeds into the narrative of US exceptionalism and has now pared back expectations of the Federal Reserve's easing cycle to barely one 25bp rate cut this year. The US calendar this week looks unlikely to challenge that narrative. On the inflation side, we have PPI data (Tuesday) and CPI data (Wednesday). Core month-on-month readings could very well be 0.3% in both, and this would mark the fifth consecutive month of a 0.3% MoM reading on core CPI. On the activity side, we should see a strong NFIB small business optimism reading (Tuesday) and a decent retail sales figure (Thursday). And on the Fed, we'll presumably get an encouraging Beige Book on Wednesday evening – prepared ahead of the next FOMC meeting on 29 January.

The big question for the market now is whether the Fed really needs to cut at all this year.

At the same time, dollar strength and firm US yields are pressure-testing the financial system. UK assets markets are starting to creak, but perhaps the most significant battleground today is in China. Here, USD/CNY onshore is pressing the +2% trading band around the daily fixing. The People's Bank of China (PBoC) seems to be announcing new measures each day in an attempt to support the renminbi. On Friday, it was a large PBoC sale (planned for Wednesday) of CNH bills in order to drain liquidity. Today it is a relaxation of macro-capital measures that now allows Chinese corporates and financial institutions to raise more money overseas.

Probably not helping the optics of looming US tariffs on China was China's massive monthly trade surplus in December of nearly \$105bn. It would not be a surprise to hear President-elect Donald Trump commenting on this today.

The only currency withstanding the dollar onslaught at the moment is the Japanese yen. Japan was closed today for a holiday, but it seems the threat of more Bank of Japan (BoJ) FX intervention in the 158/160 area plus the chances of a BoJ 25bp rate hike on 24 January – now priced at 52% – are providing the yen with some support. We do think the defensive currencies of the yen and the Swiss franc can outperform on the crosses, while commodity and emerging currencies should take the brunt of the higher US rate story. Indeed, AUD/USD is not far from 0.60, where we could start to hear speculation over impending Reserve Bank of Australia FX intervention.

For today, look for DXY to stay bid near 110.

*Chris Turner*

## ➔ EUR: Little push back from the ECB

With US rates rising and the dollar doing very well (up 8% since late September) it would not be a surprise to hear a few central bankers turning a little less dovish in order to provide some support to their beleaguered currencies. However, in Hong Kong today, European Central Bank (ECB) Chief Economist Philip Lane has preferred to say that without cutting rates further, the ECB inflation target would be at risk. It therefore seems that the ECB is not particularly worried by the soft EUR/USD levels as calls for parity grow louder.

The eurozone data calendar does not look particularly exciting this week, although a break of 1.0200 may need to wait for some of that stronger US inflation data (highlighted above). 1.0200-1.0250 could well be the range today.

*Chris Turner*

## ⬇ GBP: Backed into a corner

Sterling continues to trade on a soft footing and its losses could extend this week. Wednesday will be the most important day for sterling given that is when December UK CPI data is released. Sterling may well get hit regardless of number comes out. Sticky inflation and what it means for the Bank of England (BoE) cycle could spell more trouble for the UK gilt market. Also look out for a £4bn auction of 10-year gilts on Wednesday to gauge investor demand. Alternatively, a soft CPI number (e.g., CPI services coming in below the 4.8% year-on-year consensus) could see short-dated GBP interest rates finally turn lower as the market re-prices more BoE easing. In other words, sterling gets hit under both scenarios.

In the background, the overriding view remains that the UK government will probably be forced to announce spending cuts on 26 March. This will feed into a tighter fiscal/looser monetary/weaker sterling narrative.

GBP/USD does now risk 1.20 multi-day, while EUR/GBP looks biased to 0.8450.

*Chris Turner*

## ➔ CEE: Inflation prints across the region

This week will be the first busy one of the year in Central and Eastern Europe, with inflation prints coming in across the region. Today, we start with December inflation in the Czech Republic. We expect a rise from 2.8% to 3.4% YoY, mainly due to the base effect from last year and the MoM rate remaining at 0.1%. Market consensus settles at 3.3%, in line with the Czech National Bank's forecast.

Inflation numbers will also be released tomorrow in Hungary and Romania. We expect an increase in Hungary from 3.7% to 4.5% YoY, slightly above market expectations and the National Bank of Hungary's forecast. We see fuel, unprocessed food and services prices driving price pressures higher. In Romania, we expect inflation to come in unchanged at 5.1%, which is also the market expectation, as stronger-than-expected food and energy prices combined with sticky service inflation shifted the entire inflation profile upwards.

In Poland, we will also see final headline numbers on Wednesday and core inflation on Thursday. In Turkey, inflation expectations tracked by the Central Bank of Turkey will be released on Friday.

Central banks will also be busy this week. On Wednesday we will see the National Bank of Romania's first meeting of the year, where rates will likely be left unchanged at 6.50% with a neutral press release. We see limited scope for policy easing in 2025 and now pencil in only 50bp of rate cuts to come in the second half of 2025. Thursday brings the release of the National Bank of Poland's decision, where rates are also likely to be left unchanged. The focus will be on Friday's press conference by the governor, who we think should confirm his hawkish stance from the December meeting.

In the market, CEE currencies continue to ignore the record low EUR/USD, and over the last three days even the rate differential hasn't meant much. On the contrary, we see further gains across the region. EUR/CZK and EUR/PLN in particular mark the biggest divergence from rates. EUR/PLN may find justification for the current lower levels thanks to the NBP meeting this week and its governor's hawkish tone, which may trigger further outpricing of rate cuts and support the currency. EUR/CZK will see inflation numbers this morning, which will indicate how likely rate cuts are in February and March. Given the dovish market expectations, we are rather negative on the CZK from current levels and 25.00 may be the best CZK level near term.

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