

FX Daily: Dollar starts to look cheap in the short term

The dollar has not benefited much from the hotter US CPI figures released yesterday, and we think there is some room for a rebound in the greenback before the end of the week. Today, the focus will be on the European Central Bank's [operational framework review](#). The FX impact should be limited though, and we think EUR/USD could re-test 1.0900 soon



USD: Sticky dovish expectations

It appears that the optimistic message on disinflation sent by Federal Reserve Chair Jerome Powell continues to resonate loudly with investors. Core CPI rose by a hot 0.4% month-on-month in February, higher than the consensus 0.3%, but the market reaction has been very contained compared to a month ago when inflation surprised by a similar margin. Indeed, the actual whisper number was closer to 0.4%, but that does not make the rally in US equities after the release any less surprising. We think, instead that markets continue to rely quite heavily on Powell's relatively dovish testimony, which has made rate cut expectations arguably stickier.

The Fed funds futures curve has shifted only modestly lower compared to the start of the week,

still pricing in 19bp of easing at the June meeting, and 85bp by December. Last Thursday, before jobs data were published, the December contract was trading at 92bp, meaning that the combined effect of higher-than-expected payrolls and hot inflation has been a mere 7bp.

If we don't see a delayed bearish correction in risk sentiment by the end of the week, we can probably expect this dovish asymmetry in markets' reaction to data to stay. Today, there are no data releases except for MBA mortgage applications, and the Fed is in the blackout period ahead of next week's meeting. The 30-year Treasury auction will be more interesting to watch following soft demand for 10-year notes yesterday.

The hot CPI should warrant a stronger dollar from these levels, and we think there is a good chance that the dollar will find more support in the coming days.

Francesco Pesole

📌 EUR: ECB framework revision announced today

EUR/USD has survived a hot US CPI print, finding strong support above 1.090 and reversing almost all initial losses in a few hours. In line with our USD view for the next few days, we believe there are some downside risks for the pair as markets struggle to price in more Fed rate cuts without data providing some help.

Today, the eurozone calendar includes industrial production figures for January and speeches by two dovish European Central Bank members, the Executive Board's Piero Cipollone and the Governing Council's Yannis Stournaras. We are also expecting an announcement by the ECB on the results of its framework review. Our rates team thinks there are three key aspects to watch: (1) the balance between liquidity operations and the bond portfolio, (2) the composition of the bond portfolio and (3) the trajectory of the transition period. Our expectations are that the ECB will target a demand-driven floor model, which implies that the demand for bank reserves is satisfied through liquidity operations (e.g. MROs and LTROs) and supported by a (smaller) structural bond portfolio. Our colleagues discuss the potential implications of the new operational framework on bank liquidity and funding [here](#).

Today's decisions will have implications on how monetary policy impacts long-end eurozone rates, but should not have direct short-term FX implications. Some dovish comments today, combined with some rates-driven support to the dollar could lead to EUR/USD re-testing 1.0900 soon.

Elsewhere in Europe, Sweden releases its inflation report for February tomorrow morning, and we see upside risks to the consensus of 2.8% year-on-year CPIF/3.6% CPIF excluding energy. That can offer some help to the krona, even though a dovish Riksbank continues to be a risk for SEK in the crosses.

Francesco Pesole

📌 GBP: UK takes step to exit recession

This morning, the UK printed a [positive growth number](#) (0.2% MoM) for January, taking a first step to exit recession. The trailing 3-month GDP - so for November to January - only shows a very small (-0.1%) contraction. Industrial production, however, declined unexpectedly from 0.6% to 0.5% year-on-year in January.

The positive GDP print was largely expected, and the pound did not move on the release. The calendar in the UK now quiets down before the Bank of England publishes its Inflation Attitudes Survey on Friday morning.

Yesterday, we heard from both Governor Andrew Bailey and hawkish MPC member Catherine Mann. Bailey said that he saw the economy near or at full employment and that there is very limited evidence so far that an increase in unemployment is needed to curb inflation. He also claimed the risks of second-round effects to inflation and a wage-price spiral have decreased. Mann was unsurprisingly more cautious with her wording around inflation and said that services inflation needs to drop at a much faster pace to be consistent with the BoE's inflation target.

Markets are now pricing in slightly less than three rate cuts in the UK by year-end, with a June cut around 50% priced in and an August cut fully expected. We had deemed a break below 0.8500 as premature given the short-term EUR:GBP rate differentials, and we now expect some stabilisation around 0.8550 ahead of Friday's UK data and the BoE meeting next week.

Francesco Pesole

NZD: Migration figures are key for the inflation outlook

New Zealand will release housing and net migration numbers tonight, and the Reserve Bank's chief economist – Paul Conway – is due to speak about the February monetary policy report this evening.

We are monitoring New Zealand's net migration figures quite closely. [As discussed in this note](#), we identified the sharp rise in inbound migration as the biggest risk to the RBNZ's hopes of bringing inflation sustainably lower. Should we see further evidence of rising immigration flows, we'll be increasingly tempted to move our first rate cut from August to October, with 50bp as opposed to 75bp of total easing by year-end.

The Kiwi dollar may suffer from a small USD comeback in the short run, but NZD still looks like an attractive option to ride an eventual capitulation of the dollar once US data allows. We expect to see 0.65 in NZD/USD by the end of the third quarter this year.

Francesco Pesole

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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 <http://www.ing.com>.