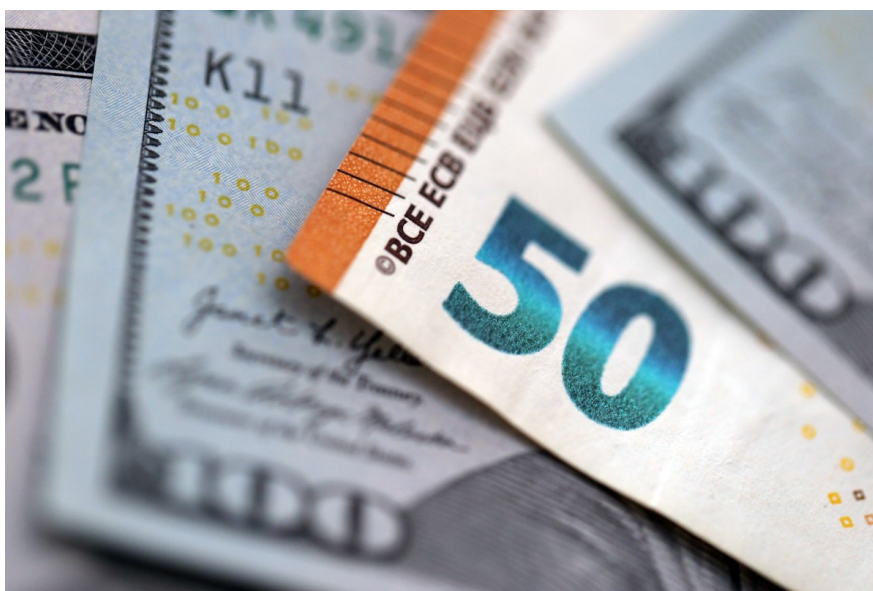


FX Daily: Domestic stories coming to the fore

The dollar started the holiday week with some support, but we might not get a clear directional USD move over the coming days, allowing more focus on domestic stories elsewhere in the G10. Germany's ZEW should improve this morning, while the RBNZ should keep rates on hold overnight, but may send some hawkish hints



We're expecting more focus on domestic stories in the G10 space this week

➔ USD: Oil giving some support

A quiet start to the week due to a US holiday has seen the dollar find some support. Aside from a stretched USD short-term undervaluation that by itself justifies some USD gains on calm days, the increase in oil prices was probably the main driver for G10 FX yesterday.

The trigger was a report that Iran conducted drills around the Strait of Hormuz, probably in an attempt to show leverage ahead of talks with the US. The probability of a US strike on Iran by the end of March remains close to 40% according to betting markets. Further perceived escalations can lead to more support coming the dollar's way via the oil channel.

As highlighted in yesterday's [FX Daily](#), potential volatility in the stock market could be more relevant than data this week. But today's ADP weekly payrolls should attract some interest after

the 10-24 January came in on the soft side. The Empire Manufacturing index is also out today, expected to decline to the low sixes.

We may not get a clear USD directional story this week, so focus may shift to local stories in the G10. The Reserve Bank of New Zealand could send some hawkish signals ([preview here](#)) tonight and lift NZD, while the pound and AUD face some downside risks from data.

Francesco Pesole

➔ EUR: Strong ZEW today

We discuss in more detail the expansion of the European Central Bank's EUREP repo lines [in this note](#). While framed as a financial stability tool, we believe that it represents another step toward a truly “global euro”, expanding its use beyond Europe and strengthening its role in trade, reserves, and international debt markets. It may also hint at a more relaxed ECB stance towards euro strength.

On the data side, ZEW surveys are out this morning and are expected to show further improvement. The Expectations index should move above 60.0 for the first time since mid-2021, and might offer some support to the euro.

That said, we remain slightly more in favour of EUR/USD downside for the remainder of the week, given room for USD to recover based on short-term fundamentals. A test of 1.1800 soon remains our baseline.

Francesco Pesole

⬆️ HUF: Market dismantles fiscal premium

While the CEE region generally saw a sleepy opening to the week on lower liquidity due to the US holidays, in Hungary we saw strong moves in both FX and rates yesterday. Saturday's speech by Prime Minister Viktor Orbán was a closely watched event for financial markets ahead of the April general elections. And it seems that the absence of new fiscal measures in Orbán's speech led to some dismantling of the fiscal premium at the long end of the curve. The 10y government bond yield saw a decline of around 10bp, one of the biggest one-day moves in recent years. Similarly, EUR/HUF saw a return to recent lows and was looking to test 377 again. After such a move, it would not be surprising to see some correction today as liquidity returns to the market – but it is clear that the market is in a good mood ahead of the elections, and nothing is likely to change here unless we see some surprising announcements on the fiscal side.

A stronger forint is especially good news for the central bank ahead of its meeting next week. January inflation surprised slightly lower last week, and the inflation structure indicated disinflation across the basket. Therefore, together with stronger FX, it seems that all the conditions for a restart of rate cuts have been met. At the same time, it seems from the recent behaviour of the forint that the market is happy to fade any weakness. Moreover, rate cuts are fully priced in for the next two meetings, and in turn, it is difficult to find reasons for a weaker FX here. We still believe that the start of rate cuts will somehow offset the positive sentiment in the market; further gains for the HUF will be more difficult, but we can probably expect to test new lows below 377 EUR/HUF.

Frantisek Taborsky

➔ RON: The long road to greater FX flexibility

The National Bank of Romania is likely to leave rates unchanged at 6.50% today. The central bank has been holding rates steady since August 2024 after the presidential election brought significant volatility to the market, and inflation jumped slightly below 10% after the government raised some taxes. Yesterday's January inflation figures came as a slight surprise to the upside compared to expectations, but they probably don't change the picture too much. However, the central bank will have to wait a little longer, as inflation should ease in the middle of the year due to the base effect from last year. Today's meeting will also bring a new forecast and inflation report, where we will look for signs of dovishness. In particular, Friday's GDP figures indicate an economy heavily hit by fiscal consolidation, which should support the NBR in implementing rate cuts sooner rather than later. We expect the first cut in May and 100bp this year in total.

EUR/RON remains roughly stable in the range of 5.090-100, and we do not expect the central bank to provide more FX flexibility. In particular, sticky inflation does not allow the central bank room for additional inflationary pressures, and we expect that any upward movement in the EUR/RON level would come only after the first rate cuts at the end of the year. Our forecast for the year-end level is 5.150.

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