

## FX Daily: Enthusiasm has been curbed

A combination of weakish China data and a pushback by both ECB and Fed officials against early easing is weighing on risk sentiment and supporting the dollar. It is hard to see that sentiment changing today should US December retail sales come in on the strong side.

Elsewhere, the European parliament's discussion of money for Hungary could hit the forint



Fed member Christopher Waller pushed back the market's aggressive pricing of easing in a speech on Tuesday

### USD: Strong retail sales will only add to bid dollar tone

We were right about the importance of the [speech from the Federal Reserve's Christopher Waller yesterday](#). We were wrong about its content, where, in fact, he did push back against the market's aggressive pricing of easing. Here is the key sentence:

"This cycle, however, with economic activity and labor markets in good shape and inflation coming down gradually to 2 percent, I see no reason to move as quickly or cut as rapidly as in the past".

US yields pushed higher on the speech and the dollar strengthened. However, equity markets held up reasonably well. Since equity markets have had a large say in FX market pricing over the last couple of months, this may have been one of the reasons why the dollar was not even stronger yesterday.

Dialling back to the broader FX environment, we are seeing an unwinding of the benign environment that dominated late last year. So instead of bullish steepening of the US yield curve, we are actually seeing bearish steepening. Our rates team has a [4.15% near-term target](#) for the 10-year Treasury yield. That can keep USD/JPY bid for a while, but we are now less than a week away from an important Bank of Japan meeting. Source stories about possible changes in BoJ policy could emerge any day and warn against chasing USD/JPY higher at these lofty levels.

This higher US rate environment is unwinding all the pro-risk trades that were placed late last year, such that the high beta Australian dollar and Norwegian krone have been some of the worst performers. We have been stopped out of a short EUR/AUD trade (for a profit).

Not helping the global risk environment have probably been events in the Middle East and the continuing weakness in Chinese asset markets, where overnight data showed new property prices in China falling at their fastest monthly rate since 2015 and presumably heaping more problems on the local developers. Stabilisation of the Chinese economy and its asset markets remains a weak link in the global investment thesis this year.

On to today and the US highlight will be the release of December US retail sales. Our team is looking for a [strong 0.6% month-on-month reading](#), which presumably will also question the market's current pricing of a 62% chance of a Fed rate cut in March. Interestingly, despite Fed Waller's speech yesterday, the market is still pricing 154bp of easing this year. That seems too much.

It was not our baseline call yesterday, but DXY did break resistance around 103.10/15 (now support) and the upside bias to US rates and a mixed risk environment warns of DXY extending to the 104.00/104.25 area.

*Chris Turner*

## ➔ EUR: Let's see what Lagarde has to say

In a busy week for European Central Bank speakers, today sees ECB President Christine Lagarde speak twice. A whole host of ECB speakers have pushed back against the market's pricing of 150bp of rate cuts this year - but market pricing has proved quite stubborn. Let's see whether President Lagarde can move the needle when she speaks today.

EUR/USD is working its way lower on the higher US rate/softer risk environment. We had not forecast it yesterday, but EUR/USD is now moving down towards our 1Q target of 1.08 - as we have outlined in this week's [release of FX Talking](#).

It could have been worse for EUR/USD - e.g. if energy prices were spiking on the back of events in the Middle East. For the time being, however, plentiful stocks of natural gas and the Straits of Hormuz still being open means that natural gas and crude oil prices remain subdued.

1.0800 looks to be the near-term bias for EUR/USD and we are pleased that, despite the geopolitical environment, EUR/CHF is moving higher in line with a thesis of higher euro rates being the dominant factor here.

*Chris Turner*

## ➔ GBP: Slightly firmer CPI provides short term lift

Sterling is enjoying an early morning bounce after the December UK CPI figure came in higher than expected. In focus was the services reading at 6.4% year-on-year versus 6.1% expected. In theory, this could see the Bank of England towards the back of the pack of the central banks looking to cut this year. However, our UK economist James Smith warns that airfares and package holidays/hotels have been a big driver of today's number - factors the BoE thinks 'may not provide a good signal of underlying trends'.

Given the prospect of renewed fiscal stimulus in March, however, it may be hard to position for a weaker pound on the 2024 BoE easing cycle. Combined with our bullish EUR/CHF view, GBP/CHF (carry positive) could be embarking on a recovery to the 1.11/12 area. For the time being, EUR/GBP can probably trade closer to 0.8550/8600 and it looks like the better dollar/softer risk environment can drag GBP/USD back to the 1.2500 area.

*Chris Turner*

## ⬇️ CEE: Busy speakers schedule in the region

Apart from the PPI in the Czech Republic for December, today's calendar is empty in the CEE region. However, we have several speakers scheduled here. In the Czech Republic, the Czech National Bank's deputy governor is expected to speak at a local conference, which could be the first CNB commentary after Thursday's surprisingly low inflation. We may expect more from the CNB given its upcoming February meeting at which we expect a 25bp rate cut in our base case, but we think the inflation numbers have opened up discussion of a 50bp move.

Elsewhere, the European Parliament will discuss with the European Commission a resolution against Hungary and the December unlocking of some EU funds. The vote is expected to take place tomorrow and is likely aimed at sending a signal ahead of the EU summit on 2 February that the EC will not unlock more money for Hungary. Today we will also hear more officials from this week's CEE conference taking place in Vienna. For today, we should see officials from the National Bank of Poland and National Bank of Hungary. In Poland, the first parliamentary session of the year is underway and it could bring some newsflow into the current political tensions.

Yesterday's trading brought more weakness to the region as we expected and we remain negative today as well. The zloty continued to sell off quickly yesterday and further direction is hard to read in the current story. Given the lack of a political solution and heavy long positioning built over the previous two months, we are leaning more to the bearish side and a test of 4.400 EUR/PLN today would not be a surprise for us. EUR/HUF briefly looked above 380, our key level for this week, and we expect another test of this level today. On top of the lower market rates which are negative for FX, we could also see negative political noise in the coming days, which could just unlock the forint's depreciation potential we discussed earlier. Thus, the koruna seems to be the only currency with support for us at the moment, which should hold near 24.700 EUR/CZK.

*Frantisek Taborsky*

## Authors

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto: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 <http://www.ing.com>.