

## FX Daily: Euro back under pressure

The US seems to be enjoying a virtuous cycle of better-than-expected growth, higher tax receipts, and lower-than-expected borrowing requirements. In contrast, today should see a mild contraction in fourth quarter GDP across the euro area and confirmation of a technical recession. Barring a big fall in today's US JOLTS data, EUR/USD should stay soft



### ➔ USD: Treasury borrowing requirements help local asset markets

US asset markets got a boost late Monday on forecasts from the US Treasury that its first-quarter net borrowing requirement would be \$55bn better than what it had predicted back in October. As our colleagues in rate strategy [discuss here](#), this provides a better backdrop for tomorrow's US Quarterly Refunding announcement. Treasuries rallied on the news and lower US yields also helped US tech stocks to new highs. On that subject, Alphabet, Microsoft and AMD announce 2023 fourth quarter earnings after the close tonight. That news of a lower borrowing requirement from the US Treasury also served as a reminder of the virtuous cycle between growth, tax receipts and deficits. In contrast, the eurozone should be releasing a soft set of fourth quarter GDP figures today.

Looking ahead we would expect the dollar to be holding gains against European currencies over the coming days. In terms of today's US calendar, we have the Conference Board's consumer confidence index for January and the JOLTS job opening data for December. On the former, a strong number is expected given the jobs market is holding up. On the latter, only a modest drop is expected in job openings, to 8750k from 8790k. Any faster-than-expected drop in the JOLTS could soften the dollar given some Fed officials seem to like JOLTS as the best gauge of slack in the US labour market.

Given soft activity data in Europe - and ongoing pessimism in China - DXY can probably trade a 103.15-103.80 range heading into tomorrow evening's FOMC meeting.

*Chris Turner*

## ↓ EUR: Sluggish GDP will not help

As we have seen over recent weeks, investors have sunk their teeth in 2024 easing cycles, and the European Central Bank (ECB) pushback against aggressive rate cut expectations has not proved effective. Eurozone data this week will not help that pushback, given what should be a combination of week activity data and softer inflation figures for January. Today it is the turn of the GDP data. We have already seen French GDP come in flat quarter-on-quarter for the fourth quarter of last year and the market is bracing itself for a soft German figure, expected at -0.3% QoQ and dragging the eurozone down to -0.1% QoQ. This would confirm a mild technical recession in the eurozone.

Given the prospect of soft, base effect-driven January CPI readings across the region to be released over the coming days, there seems little to prompt a snapback in two-year EUR swap rates. These have fallen 15bp over the last week. A French farmers' blockade of Paris and President Macron requesting a stop to the Mercosur trade deal are not particularly helpful to the eurozone investment proposition.

EUR/USD has tested support at 1.0795/1.0800. Range trading is probably likely into tomorrow's FOMC meeting. But barring a sharp fall in the US JOLTS figure today, it looks like EUR/USD will continue to trade on the heavy side.

*Chris Turner*

## ↓ CEE: GDP in the Czech Republic, rate cuts in Hungary

This morning, the fourth quarter GDP figures for the Czech Republic will be published, the first in the CEE region. We are expecting only modest growth compared to the previous quarter and close to stagnation in the economy, given that the monthly numbers did not show much of a recovery (for which we will probably have to wait a bit longer). A decision by the Hungarian National Bank (NBH) is scheduled for later. Here we expect a 100bp rate cut to 9.75% in line with expectations. The currently weaker HUF increases the risk that the central bank will only cut by 75bps as in November. However, we still think levels below 390 EUR/HUF should be comfortable for the central bank to increase the pace of cutting due to below-forecast inflation and a favorable outlook for the coming months.

Yesterday's EUR/HUF trading was negatively impacted by early reports of EU retaliation against Hungary if it vetoes the EU budget approval involving Ukraine funding. The situation calmed down

somewhat during the day, but still EUR/HUF remained 0.5% higher compared to Friday. A 100bp cut would likely bring further weakness for the HUF given that the market has slightly reduced bets on a 100bp move in recent days. However, as we indicated earlier, we don't see much room for further HUF weakness compared to previous days. The weakening after today's decision may be a signal for the market to start buying the forint above 390 EUR/HUF again after rates adjust to the new central bank trajectory.

*Frantisek Taborsky*

## 📌 CNY: Setting a soft tone for the region

The news from China remains quite pessimistic. The Evergrande headlines yesterday serve as a reminder that there are no quick fixes for the property sector and the measures announced by policymakers to support local equity markets, such as restrictions on short-selling, are not proving effective. There is increasing talk of the People's Bank Of China needing to cut interest rates further.

While local policymakers will be glad that USD/CNH has reversed from the 7.30/35 area - breaking a 'sell-China' mindset - they will not want the renminbi to rally too much either. This tends to suggest that USD/CNH can gravitate around the 7.20 area and that Asian FX will continue in its very sluggish start to 2024.

*Chris Turner*

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