

FX Daily: Executive decisions incoming

Today, all eyes are on Donald Trump's inauguration as the 47th President of the United States. Financial markets are bracing for a flurry of executive orders ranging from immigration to energy and possibly trade. On tariffs, betting markets are marginally priced in favour of tariff action against China and Mexico this week. After four months of being bought on the rumour, the dollar is now exposed to some selling on the fact – but there should be plenty of dollar buyers on dips



Crowds begin to gather on the National Mall near the US Capitol ahead of Trump's inauguration

USD: Looking out for executive orders

The big day has finally arrived. Financial markets are on tenterhooks to see what executive orders newly elected US President Donald Trump will enact on his first day. There's a lot of focus on immigration controls and declaring a national energy emergency to allow more US oil and gas production. FX markets are most interested in what he has to say about tariffs and what kind of pain the Oval Office plans to inflict on major trade partners. At last week's nomination hearings, incoming Treasury Secretary Scott Bessent said that tariffs would be needed to address unfair trade practices, support government revenue, and to be used as a negotiating tool.

In terms of what is currently priced for tariffs by financial markets, we find the online prediction websites quite useful, such as Polymarket and Kalshi. Polymarket is running a book on which countries will receive US tariffs in Trump's first week. China is priced at 56%, Mexico at 54%, Canada at 45% and the European Union at just 7%. There is also the case – using Scott Bessent's remarks about tariffs as negotiating tools – that the new administration goes in on tariffs hard at the outset. That is why after a near 10% rally from late September, the dollar today is less than one percent off its recent high.

Of course, there will be the risk of a correction in the dollar should it look like Trump will be more selective on tariffs after all – but that should probably come at a later stage.

Price action could well be muted today since US markets are shut for the Martin Luther King public holiday. And the US data calendar is quiet this week, especially with the Federal Reserve in its blackout period ahead of the next FOMC meeting on 29 January. But overall, we have no confidence in calling the dollar lower on market positioning and instead see scope for DXY to have another test of 110 this week. Thursday could also be an important day for markets this week, with Trump due to have a digital dialogue with leaders at the World Economic Forum in Davos.

Chris Turner

➔ EUR: Bracing for storm Trump

When asked about the chances of an EU trade conflict at the weekend, the European Central Bank's Isabel Schnabel said that it was "very likely". Perhaps the euro should be worried that the online prediction markets only have low pricing of tariffs on the EU this week. Equally, we doubt FX markets are fully priced to universal tariffs and EUR/USD would get hit were these to emerge.

Away from Washington this week, the eurozone's focus will be on a couple of speeches in Davos from ECB President Christine Lagarde. Currently the market prices 100bp of ECB easing this year, while ING's house view is for 125bp. This week also sees the flash PMIs for January. Presumably, there will not have been much of a recovery here as the world awaits Washington's new economic agenda.

It is hard to know what to expect from the US today, but there is a chance that 1.0400/0435 caps any surprise EUR/USD rally on a softer-than-expected tariff story. And 1.0225 could be the extent of any sell-off should the tariff story come in hot.

Chris Turner

➔ GBP: Staying offered

EUR/GBP is staying bid near the recent high of 0.8450/60. While we (and the UK sovereign credit default swap market) do not think this is a Liz Truss-style moment for UK sovereign risk, we do think the solution to the current challenges is sterling negative. To resolve the risk of breaching the fiscal rule, either the government needs to cut spending, the Bank of England to cut rates (lowering Gilt yields) – or both.

There is not a lot on the UK data calendar this week apart from the November jobs data tomorrow. We also wonder whether Wednesday's release of the December budget figures will draw greater attention than normal.

But overall, we see little reason for sterling to recover. Above 0.8450/60, EUR/GBP can see 0.8500. GBP/JPY is very much in focus as well given the prospect of the Bank of Japan hiking 25bp this Friday. 185 looks very possible here.

Chris Turner

➔ CEE: Just follow the rates

The CEE calendar is lighter in the second half of the month, and the second half of this week will be more interesting to watch. Monthly data in Poland will be published on Wednesday and Thursday. December's set of data from the real economy should point to a continued, albeit gradual, recovery of the Polish economy. On Thursday, the first meeting of the Central Bank of Turkey since the December start of the cutting cycle is scheduled. Our economists expect the 250bp rate cutting pace to continue in January from 47.5% to 45.0%. And on Friday, consumer confidence will be released in the Czech Republic.

We also have several speakers scheduled this week in the CEE region. Hungarian Prime Minister, Viktor Orban, and MinEco's Marton Nagy are scheduled to speak today. In the second half of the week we could hear the first statements from Czech National Bank board members before the blackout period starts at the end of this month. Our economists expect a rate cut at the February meeting after December inflation surprised to the downside, and headlines from the CNB should confirm this.

CEE FX has been in the same mode since the beginning of the year, notably following the direction of the rates market. The National Bank of Poland's [press conference](#) brought an extra dose of hawkishness, which we think will shift the EUR/PLN trading range from 4.260-280 to 4.250-270. The interest rate differential widened by 10bp on Friday and we are likely to see more today, which will keep PLN supported. On the other hand, we remain negative on the CZK given our expectations of a CNB rate cut in February, which should push EUR/CZK up towards 25.400. EUR/HUF is trying to stabilise after high volatility at the turn of the year and we see levels around 412 for now.

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