

FX Daily: First set of US inflation data today

The US releases PPI figures for January today, where the core measure is expected to accelerate at an unwelcoming 0.3% MoM. That should cast more doubts about further Fed easing and give the dollar extra support into tomorrow's CPI. In the UK, gilts have remained pressured ahead of a key inflation print tomorrow, and sterling risks remain



We have published our latest monthly FX update: "[FX Talking: Trump's currency, your problem](#)"

⬆️ USD: PPI can add fuel to dollar momentum

This week's US inflation data could potentially reinforce the dollar's strong momentum and cast further doubts on whether the Fed needs to cut at all. Tomorrow's CPI should have the biggest market impact, but today's PPI is still highly relevant, especially as many of the PPI components feed into the Fed's preferred measure of inflation – the core PCE.

Our call is in line with the consensus for an acceleration in the core PPI measure from 0.2% to 0.3% month-on-month in December. That should keep the dollar in demand into tomorrow's CPI, where we see some risks of a milder-than-expected print.

The US calendar also includes the December NFIB Small Business surveys, where the main optimism index recently spiked above 100, back to the mid-2021 levels. In the US, small businesses account for around 44% of GDP and employ around 46% of the US workforce. The "hiring plans" sub-index also accelerated in the fourth quarter of last year and is at a 20-month high. While all this isn't impacting Fed pricing directly, another strong set of figures today can keep the Fed relaxed on the activity/jobs picture.

We will hear from Schmid and Williams on the Fed's hawk side. The former is a hawk and the latter generally hawkish-leaning, meaning they could place more emphasis on the tight jobs market compared to the dove Goolsbee – who stressed on Friday that the December jobs report was not a sign of overheating.

The dollar index (DXY) can find its way back above 110.0 after a modest, likely positioning-driven correction yesterday evening.

Francesco Pesole

EUR: ECB stays dovish

The eurozone calendar is rather quiet this week, and EUR/USD should remain primarily driven by the dollar leg.

That said, there remains very little support domestically for the euro. Yesterday's interview by ECB Chief Economist Philip Lane is a good snapshot of the Governing Council's current stance. Lane said that "if the economy is not growing quickly enough, we will undershoot our target", and also discussed the structural and cyclical growth concerns for the eurozone. Olli Rehn made the case for rates being cut to neutral by mid-2025.

With yet another nudge by the ECB to market expectations and the lack of data releases, expect pricing to remain sticky around the 90-100bp of easing by year-end. That means the rebound in the EUR 2-year swap rate started in January may stall before reaching 2.50%, and a potential hawkish repricing in the USD curve could reduce EUR/USD undervaluation gap (currently around 2.5%).

Francesco Pesole

GBP: Jittery UK markets into tomorrow CPI

Gilts have remained under pressure, following the global bond underperformance. There is now a tangible risk that 10-year yields will be trading above 4.90% before tomorrow morning's UK CPI print. Should that come in hotter than expected, selling pressure can intensify into the 5.0% handle and potentially beyond.

While sterling generally appreciates on inflation surprises, its current indirect correlation with rates means the risks are definitely skewed to the downside. We must remember that the rise in borrowing costs is eroding the UK Government's fiscal headroom and incrementally raising the risk of Spring spending cuts – which are, incidentally, negative for sterling.

Things can stabilise in the gilt and GBP markets over the coming weeks, but Cable may still drop to 1.200 in the very near term before finding support.

Francesco Pesole

📌 CEE: Inflation closes divergence in rates and FX

This morning we saw the December inflation numbers in Romania, which was unchanged at 5.1% YoY. This doesn't change the picture much ahead of Wednesday's National Bank of Romania meeting [where we expect rates unchanged at 6.50%](#) and a rather neutral stance.

In Hungary, we will also see inflation numbers this morning. We expect an increase from 3.7% to 4.5% YoY, slightly above market expectations and the National Bank of Hungary's forecast. We see fuel, unprocessed food and services prices driving price pressures higher.

Inflation in the Czech Republic surprised significantly to the downside yesterday at 3.0% in December vs. the 3.3% CNB and market forecast. Although the main reason is lower food prices, we could see prices falling across the consumer basket. This gives a good chance of a lower January number, which led our economists to [revise the CNB forecast](#) and we now expect a restart to the cutting cycle as early as the February meeting versus March in our previous forecast.

The CZK market reacted with a sharp depreciation yesterday and given the divergence between rates and FX in recent days, as we discussed here earlier, we expect more depreciation. The rate differential is currently pointing to 25.40 EUR/CZK, which is also the CNB forecast. We also saw some spillover into the PLN market yesterday and the divergence seems to be closing here as well, which would point to 4.280-290 EUR/PLN. However, as we mentioned yesterday, Friday's NBP press conference will again be more of a reason to see EUR/PLN lower.

Frantisek Taborsky

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

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

chris.turner@ing.com

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