FX Daily: Focus shifts to China

After a week when FX markets were very much dominated by events in Europe, focus this weeks shift to China. Chinese retaliatory trade measures against US agricultural goods have come into effect and we expect to see more focus on how high USD/CNH trades ahead of reciprocal US tariffs coming in next month. Elsewhere, EUR/USD may be due some consolidation

USD: Dollar might have fallen far enough for time being

FX markets are starting to settle down after a momentous week. While events in Europe were really the dominant factor, we would not have seen such big moves in EUR/USD were it not for US short-dated rates crumbling. Financial markets have priced the Fed terminal rate some 50bp lower in a little over a month. That may be enough for the time being barring some shock fall in US JOLTS job opening data (Tuesday) or big rise in the weekly initial jobless claims data (Thursday). Indeed, Federal Reserve Chair Jay Powell was quite sanguine about recent developments in a speech on Friday. One takeaway was his comment that sentiment readings were not good predictors of consumption growth - suggesting it may be too early to predict the demise of the US consumer. This week also sees February CPI data on Wednesday, where the core rate is expected to remain sticky at 0.3% month-on-month. This all supports Powell's conclusion on Friday that the Fed does not need to be in a hurry to cut rates and could pour a little cold water on the market's 27bp pricing for a rate cut in June.

Also please remember that the US has now switched to Daylight Savings Time, narrowing the time difference until the clocks go forward in Europe on 30 March.

Away from US data this week, the focus will be on Ukraine peace talks in Saudi Arabia and the global trade war. Overnight, China went through with its retaliatory tariffs against US agricultural goods, and this Wednesday sees US tariffs go into effect on steel and aluminum imports. Hanging over the market remains the threat of extensive 'reciprocal' US trade tariffs coming in next month as Washington seeks to level the playing field for trade (and raise some much needed revenue for the domestic agenda). And after all the focus last week on Europe, this week we think the market will watch the USD/CNH top-side as the market will again question whether Chinese authorities, suffering weak growth and deflation, have any greater tolerance for a weaker renminbi. We think not, but that may not prevent USD/CNH from being bought through 7.30.

DXY could probably do with some consolidation after a tumultuous week, though more selling interest may return at 104.30/50 as long as the European outlook continues to be positively re-assessed.

Chris Turner

EUR: Picking through the politics

EUR/USD is consolidating after last week's 4.4% rally. We haven't seen anything like that since the early days of the Covid pandemic in March 2020. As we discussed Friday, the narrative of independent US and European stories stands to lift FX volatility. Away from the peace discussions in Saudi Arabia this week, the focus will be on German CDU leader Friedrich Merz and his ability to build a coalition of the fiscal willing to get the EUR500bn infrastructure fund through the current parliament. He is currently in discussions with the Greens and reports suggest a vote could take place in the lower house Bundestag on 18 March, before the upper house Bundesrat seals the deal on the 21st. Headlines on whether the Greens are playing ball this week could trigger some volatility in the euro.

In terms of European data, today sees the March Sentix Investor confidence survey. And with little other data this week, the focus will be back to European Central Bank speakers. Our house call is that the ECB will pause its easing cycle in April. But the market still prices 17bp of rate cuts for that meeting. Expect the doves and hawks to do battle in the press over the need for an April cut, with today's input coming from the hawkish Joachim Nagel in a speech at 14CET today.

We favour a little EUR/USD consolidation in the 1.0770-1.0850 area at the start of the week and suspect that another leg higher will have to come from ECB speakers or significant progress in Saudi Arabia rather than the US macro/rate side.

Chris Turner

GBP: Very quiet on the UK calendar

GBP/USD has been dragged higher by the fiscal re-rating of Europe. That has not had too much impact on the pricing of the Bank of England easing cycle this year, where the market continues to price around a further 50-60bp of rate cuts. Next big local inputs to the UK story come at the 20 March BoE meeting (no change expected) and the 26 March Spring Statement from Chancellor

Rachel Reeves - which we see as a sterling negative event risk.

Before then, we could see EUR/GBP consolidate in the 08350/8400 area. Risks look evenly skewed here to the upside with more positive developments out of Europe/ECB re-pricing or to the downside with a refocus on looming tariffs. For GBP/USD, the upside looks a little more difficult and it may struggle to breach resistance at 1.2925/3000 near term.

Chris Turner

CEE: Mixed bag with a happy ending

This week in the region will give us a deep dive into inflation with prints across CEE. Tomorrow we will see February inflation numbers in Hungary and the Czech Republic. The former should see some decline from 5.5% to 5.3%, in line with market expectations, while core inflation should rise from 5.8% to 6.2%. In the Czech Republic, the final estimate will be released after the flash estimate showed a drop from 2.8% to 2.7% year-on-year last week. The breakdown should show us roughly stable or only slightly weaker core inflation and Czech National Bank commentary. Czech industrial production will be released on Wednesday and the National Bank of Poland is likely to leave rates unchanged. The central bank will publish a new forecast which should see only small changes. Thursday will bring retail sales in the Czech Republic and February inflation in Romania, which we see falling from 5.0% to 4.7%. YoY. Later, we will see the NBP press conference, which should show the usual hawkish tone with potential upside due to more hawkish data and recent events in Germany. Friday will see the release of Poland's inflation figures for February, which we estimate rose from 5.3% to 5.4%. At the same time, the stat office will release new weights and may revise the January number.

CEE FX is still absorbing news from Germany and trying to find its way through several geopolitical events. As we discussed in our cross-market report, near-term CEE currencies will be more of a mixed bag given that rates are outperforming the EUR market. This has so far led to a significant narrowing of rate differentials in the PLN and HUF market, which has also built long positioning in the previous weeks. This may be a risk in the days ahead.

However, this week we are likely to hear more on the German fiscal plan, which should be positive for CEE FX, and we will keep an eye on developments in the Ukrainian negotiations. At the same time, Thursday's NBP press conference should bring some support for the zloty. We are bullish on CEE currencies this week, especially PLN and the CZK picture looks bright for the days ahead.

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