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FX

FX Daily: Hot core CPI can resume support for the dollar

The US PPI surprised on the soft side, but that does not mean today's CPI will send similar upbeat signals. We expect a 0.3% MoM core print, which can offer a new round of support to the dollar. In the UK, cooler-than-expected inflation should limit the downside risks for the pound by helping gilts



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

USD: Core CPI could come in hot

A surprisingly mild US PPI inflation print yesterday caused some dollar softness. The 0.0% MoM core PPI directly impacts the December core PCE, which is the Fed's preferred inflation measure, but it does not automatically mean today's core CPI will be as benign.

Our US economist notes that two PPI components – airline fares and car rental prices – rose

substantially, and are expected to be major contributors to another hot core CPI print. Consensus is split between 0.2% and 0.3% MoM, with the average forecast at 0.25% (rounding up to 0.3%). That means 0.3% – which is our call – should be interpreted as a hawkish signal for the Fed and favour dollar appreciation.

Also weighing on the dollar yesterday was the report that Trump's economic advisers are drafting a plan to raise tariffs only gradually (by 2-5% a month). This approach is aimed at giving Trump negotiating leverage while having greater control over the inflationary effects compared to large one-off tariffs. This is the second major report suggesting the new administration will not take an aggressive, carpet approach to protectionism. That is also consistent with indications that Congress will focus on delivering a three-in-one (migration, energy, tax cuts) bill by April, a signal that the very initial focus could be on domestic policies.

We doubt that warrants any substantial unwinding of dollar longs though. Markets are pricing in US protectionism, but probably not a big universal tariff delivered in one go. Even if tariffs are hiked gradually, markets may not be as optimistic as Trump's team that inflation can be controlled. A hot CPI today could easily get investors jittery on the inflation topic before tariffs are even considered.

Francesco Pesole

📉 EUR: Some signs of rebound, but it may not last

The USD-negative events yesterday have prompted a return to 1.030 in EUR/USD, but we expect US CPI to resume pressure on the pair. The eurozone data calendar does not include market-moving releases, although we will hear from ECB members Lane, Guindos, Villeroy and Vujcic.

Our short-term fair value model returns a risk premium of around 2.5% on the pair. That is intuitively linked to expectations of US protectionism, and we doubt there is that much room for this valuation gap to be closed despite the latest reports on gradual tariffs.

Still, we cannot ignore this relatively supportive technical aspect for EUR/USD, and probably another material leg lower in the pair does require some rewidening in the short-term rate differential. A 0.3% MoM US core CPI read could not be enough to take EUR/USD sustainably above 1.020 for now.

Francesco Pesole

📉 GBP: Slower UK inflation should ease pressure on gilts

Finally, some good news for the gilt market. December's UK inflation – released this morning – slowed more than expected. Services CPI, which is what the Bank of England is mostly focused on, came in at 4.4% versus the consensus of 4.8%. Core CPI slowed from 3.5% to 3.2%

and headline from 2.6% to 2.5%.

We expect gilts to show some signs of relief once they open today. We have been calling for the BoE to cut rates by 25bp in February and that reinforces our view. Before the release, markets were pricing in 17bp for February, so we could see a dovish shift in the Sonia curve this morning.

The pound would have normally tanked on the back of a soft inflation print but is instead flat. That is another testament to it currently acting like an emerging market currency, being more sensitive to long-term borrowing costs than the short-term central bank outlook.

EUR/GBP had a good run yesterday, but largely on the back of strong euro performance. It is too early to turn optimistic on a sterling rebound, but some recovery in the UK bond market is a necessary condition for preventing new major FX sell-offs. Still, looking a few months ahead, this CPI print points to BoE cuts that should allow sustained GBP depreciation.

Francesco Pesole

➔ **RON: NBR on hold for now**

Today will be the first meeting of the National Bank of Romania this year. In line with market expectations, we expect rates to remain unchanged at 6.50%. Our economists see persistent inflation risks as shown by the December [inflation numbers](#) released yesterday. While economic growth concerns are not to be taken lightly, we think the Bank will need to see its risk heatmap turning less red before proceeding again with its cautious easing cycle. Overall, we now expect only 50bp of rate cuts in 2025, scheduled for the second half of the year, taking the key rate to 6.0%. We believe the NBR will wait for more clarity on the inflation and fiscal outlook before continuing its cautious easing cycle.

The bond market remains heated after the political drama late last year. Yesterday, ROMGBs saw the first signs of relief after a rapid sell-off since the start of this year. However, the market is bracing for another strong bond supply this year and with the presidential election date pushed back, the market will remain in policy uncertainty for longer, lacking good news to turn the market's direction.

In the FX spot market, the situation remains unchanged with EUR/RON around 4.975 and we do not expect much change anytime soon. On the other hand, the FX forward market remains significantly volatile. While it priced out all NBR rate cuts late last year, in recent weeks and especially after the postponement of the presidential election from March to May, the FX implied curve started to steepen with growing speculation of allowing EUR/RON higher after the election. However, we believe this move is more likely to be on the table later in the third quarter.

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