

FX Daily: Hungary's forint stands out

In the central and eastern European space, the Hungarian forint continues to outperform



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➔ USD: Little downside risk from FOMC Minutes for the dollar

The minutes from the Federal Reserve's late January meeting today are unlikely to shed fresh light on the central bank's stance, as Fed Chair Jerome Powell testified to Congress just last week and touched on the issue of the coronavirus, which has escalated since the Fed's last meeting. This suggests no negative impact on the US dollar, with the currency staying supported, particularly against the low yielders. With risk sentiment tentatively improving overnight, we may see some modest rebound in higher beta commodity currencies (vs USD) that bore the brunt of the weakness yesterday, but it is still too early to call for a bottom for this FX segment.

➔ EUR: Grinding towards the 1.0750

EUR/USD broke 1.0800 and the next support level to watch is 1.0750, though with a fairly calm day on the eurozone data front today, the 1.0750 level is likely to be tested on Friday should eurozone PMIs disappoint, in line with the recent data trend. In the UK, our economist James Smith expects an increase in CPI to 1.6-1.7%, in line with consensus, before falling to 1.1% by May / June. The CPI reading should have a fairly limited impact on sterling. While yesterday's labour market data provided a boost to GBP, UK February PMIs later this week pose a downside risk.

⬆️ CEE FX: HUF outperformance continues

In the central and eastern European space, the Hungarian forint continues to outperform as the rise in Bubor (almost equal to two 25 basis point hikes since the start of 2020) sharply increased HUF funding costs. Add to this the expected sharp decline in Hungarian CPI and this meaningfully improves the HUF real rate. Coupled with the arguably one-way short positioning, this points to a stable or stronger HUF in coming weeks, with EUR/HUF stabilising around or below the 335 level. In contrast, the meaningfully overbought Czech koruna has started to underperform, with EUR/CZK back close to the 25.00 level. We expect EUR/CZK to stabilise around this level in the months to come.

⬇️ AUD: Labour data to test RBA hawkishness

The jobs report has been increasingly important for the Aussie dollar since the Reserve Bank of Australia entered its easing cycle last year. This time around (January data, published tomorrow at 0030GMT), it may tell us whether the reluctance of the RBA to cut rates, despite the numerous downside risks to the outlook, was indeed warranted. The consensus is expecting unemployment to move back up to 5.2% (previous 5.1%): we would not be surprised to see an even higher reading as the bushfire emergency starts to bite. It will be key to keep an eye on full-time hiring, which has been on a sustained downtrend. With Governor Philip Lowe citing the advancements in the labour market as a key factor in the RBA policy equation, the rise in unemployment may revamp expectations for a more imminent cut than the market is currently pricing.