

## FX Daily: US and eurozone inflation may endorse market pricing

The US releases its PCE figures today after some GDP revisions yesterday pointed to a hotter economic environment. We expect a robust 0.4% month-on-month core print, which can help the dollar. In the eurozone, French and German CPI numbers may not lead to much change in ECB communication



### USD: Disinflation bumps help

The second release of the fourth-quarter US GDP report saw annualised growth being revised down from 3.3% to 3.2%, but a closer look hardly points to a softer growth environment. Government consumption was revised higher along with consumer spending (despite previous downward revisions in retail sales). The component driving GDP weakness was higher imports due to strong demand and inventories drawdowns. All this actually points to a hotter economy.

On the inflation side, the PCE deflator (the Fed's preferred inflation measure) for the fourth quarter was revised higher from 2.0% to 2.1% and we'll see January numbers today. Our expectations are for a 0.4% core MoM print, which in our view will endorse the recent hawkish repricing of Fed rate expectations. At the moment the Fed Funds future curve prices in 80bp of easing.

Our US economist notes how the upward pressure on January's PCE should mostly come from insurance, medical and portfolio management fees. Much of this is not really a reflection of fundamental demand or supply-driven price growth, and by more circumstantial factors like higher crime and a strong equity market. Nevertheless, that should be enough to deter another round of Fed dovish repricing for a bit longer.

From an FX point of view, we see the dollar finding some support today on the back of the release. Data on personal spending and the weekly jobless claims report should also impact USD. The EUR-heavy DXY index may well be impacted by initial CPI figures out of the eurozone today, but we think it is more likely to end the week above 104.00 than below.

*Francesco Pesole*

## 📉 EUR: CPI figures should not change the ECB narrative

France and Germany release their preliminary January CPI figures today. France goes first, and our economists have flagged risks of slower-than-expected disinflation due to the reintroduction of energy taxes. German figures later today should generate the largest market impact if diverging for consensus. Expectations are for a slowdown in headline inflation from 2.9% to 2.6% year-on-year, and from 3.1% to 2.7% in EU-harmonised terms.

We don't expect today's regional figures or tomorrow's eurozone-wide flash CPI estimate to justify a change in the ECB's narrative at next week's policy meeting. The recent speech by ECB President Christine Lagarde at the EU Parliament confirmed that the ECB is still looking for more conclusive evidence before acting on sanguine disinflation expectations. That likely includes waiting for wage data for the first quarter, and we suspect the likelihood of a rate cut before the June meeting is low. We expect some pressure on EUR/USD after US PCE figures today.

Elsewhere in Europe, keep an eye on Norges Bank's announcement of FX daily purchases for the month ahead. January and February saw a sharp reduction in NOK sales of 350m daily for both months, after having been above 1,000m for the whole of 2023. Expectations are probably that sales will be kept at NOK350m for March, but we see some risks of a higher figure that could hit NOK today.

*Francesco Pesole*

## ➡ CEE: First NBH speakers since Tuesday's decision

This morning, we see PPI data in Hungary and later, the second estimate of fourth-quarter GDP in Poland will be published. The flash estimate showed the economy stagnating and we expect confirmation of these numbers, but the data will also show a decomposition of GDP. Later today we could also hear from the Governor and Deputy Governor of the National Bank of Hungary for the first time since Tuesday's decision to cut rates by 100bp to 9.00%.

The HUF showed more weakness yesterday after the ECB published commentary on changes to Hungary's central bank law. However, the front-end of the IRS curve continued to rise in response to the hawkish rate cut on Tuesday. And we think this should stop the sell-off in the HUF soon. Yesterday already showed 394 EUR/HUF as a resistance level and we think HUF should stabilise this week before some gains later just because of higher market rates.

*Frantisek Taborsky*

## ➔ CZK: More confidence in a 75bp rate cut call

Yesterday's PPI numbers in the Czech Republic for January confirmed the strong disinflationary trend with a 1.8% YoY decline. However, the bigger news for us is agricultural producer prices, which fell 19.8% YoY, indicating that prices are falling across the economy, which is good news for the Czech National Bank. For us this is, after January headline inflation and the CNB minutes, another reason to believe our 75bp call will be supported by the central bank in March.

Of course, another change is the EUR/CZK, which moved up significantly after the central bank's February decision to cut rates by 50bp. However, the pressure on the CZK seems to be easing in recent days and we even see a slight strengthening. One factor is without question strong short positioning and for some touching 25.50 was a reason to take some profits here. In our view, the CZK is still not out of the woods and given our expectation of a 75bp rate cut in March, EUR/CZK may move higher again. But until then, we see more of a stabilisation at current levels.

*Frantisek Taborsky*

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