

## FX Daily: Is a euro re-rating underway?

The euro has been doing a little better this week. It is unclear whether this is some re-assessment – helped by the outperformance of eurozone equities – that all the bad news is priced in. However, the move is hard to chase given the uncertainty of tariffs coming Europe's way. For today, the highlight will be the January US CPI release



### 📉 USD: The surprise would be a 0.2% MoM CPI today

The DXY dollar index was a little softer yesterday – largely on the back of some strength in the euro. There is a sense of fatigue in some of the Trump trades, where this year's U-turns on tariffs have made it a lot harder to reach definitive conclusions. At present, we are waiting to hear if 'reciprocal' tariffs are coming this week. At a country level that could leave the likes of Korea, India, and Brazil the most exposed.

The challenge for traders is that, despite some fatigue in the Trump trades, there's no way to predict if tomorrow will be the day Washington significantly expands tariffs. That's why we're reluctant to call a meaningful dollar correction without some kind of macro-supporting evidence.

Could that evidence come through today? Well, there are annual benchmark revisions to the US CPI series due today. These are a little uncertain but could increase the risk of today's US January CPI release coming in at 0.2% month-on-month versus the expected 0.3%. At a stretch, this could

point to the Fed having a little more confidence in the disinflation process and the market shifting back to pricing 50bp of 2025 rate cuts versus just the 35bp priced today.

Given some sense of stability in financial markets as US interest rate volatility falls – the MOVE index is dipping back to January lows – we see a little downside risk to the dollar now. 107.30/50 could be the risk on DXY. However, a new round of tariffs could easily blow any ideas of a dollar correction out of the water.

*Chris Turner*

## EUR: Exploring the upside

We're having a lot of internal discussions about the outperformance of eurozone equities this year. Factors that could be relevant here are: eurozone macro data slightly surprising to the upside, the European Central Bank having more room to cut than the Fed, US markets trading on much higher multiples than Europe, and perhaps even speculation about a ceasefire in Ukraine. As FX analysts we note that periods of rotation into eurozone equities can help the euro, since equity investments are largely non-FX hedged. We recall 2017 when relief after the French and Dutch elections prompted a major rerating of eurozone equities and the euro.

Frankly, it's hard to see such optimism coming through for the euro today. Growth remains poor, the fiscal cavalry remains in its barracks and the ECB may well be cutting by another 100bp this year to keep rate spreads wide. That is why, if we do see any short-term recovery in EUR/USD to say the 1.0450 area, it may well peter out there.

Elsewhere we note the recovery in EUR/CHF. Again the Ukraine story may be playing a role given that EUR/CHF was trading above 1.05 before Russia invaded Ukraine. A softer Swiss inflation print today and the prospect of even lower inflation next quarter (the Swiss National Bank forecasts the YoY rate dropping to 0.2%) warns that upside risks to EUR/CHF may be growing. We could see 0.9500/9520 this week as investors reprice for some positive Ukraine news out of this weekend's Munich security conference.

*Chris Turner*

## CZK: Soft core inflation allows more cuts but CNB won't rush

In the Czech Republic, the final print of January inflation will be published today. The Czech Statistical Office has started publishing inflation in two rounds this year – flash and final – similar to Poland. The flash surprised to the upside last week with inflation falling from 3.0% to 2.8% YoY while the market was expecting 2.6%. The flash estimate only provides the basic structure, but even then it was clear that food prices were the main reason for the upside surprise. Although inflation came in above CNB expectations (2.5%), the deputy governor commented this weekend that food prices were the main reason for the deviation. The structure suggests that actually core inflation should be soft. However, we will see the full breakdown today which will allow us to estimate core inflation, and later today the CNB will release its usual commentary.

Overall, the picture at the start of the new year does not look bad for CNB. The central bank is expecting 2.6% for February and March, our economists see a path by a tenth higher, but still, the CNB forecast is realistic. Plus, local energy suppliers have recently announced new price cuts for February and March, creating some downside risks. On the other hand, the question is what is

happening in the food market. Overall, we believe the CNB will now switch to live meetings only with the new forecast, meaning May is the first chance for another rate cut.

After last week's January inflation, we turned our bearish view on the CZK to neutral, which seems like a good decision from today's perspective. Higher-than-expected inflation will not allow the CNB to cut rates faster, while the whole CEE is gaining under the positive sentiment from the beginning of the Ukraine deal discussions. EUR/CZK is thus likely to stay in the 25.000-250 range for longer.

*Frantisek Taborsky*

## CEE: Food prices as the main surprise in inflation

January inflation in the CEE region is usually volatile and so far this year we have seen upside surprises in the Czech Republic last week and in Hungary yesterday. The common feature is food price spikes as the main reason for the upside surprise. While this was suggested by agricultural producer prices and also global crop prices, the CPI numbers were still surprising. While in the Czech Republic, this leads to more caution on further rate cuts, in Hungary our economists now see stable rates all this year as more likely after yesterday's surprise in inflation. In Poland and Romania, inflation will be released on Friday. Given the surprises in the previous days, it is clear that we should have an upside bias here now as well.

Meanwhile, the market is trading on the hope of a Ukraine deal, with potential updates expected this weekend at the Munich Security Conference. However, our expectations are low, and the market may face a disappointing outcome. On the other hand, the bar is probably low.

From a market perspective, yesterday's HUF reaction to higher inflation says something about CEE currencies in general. For the first time since the US election, hawkish repricing and a sell-off in the rates space meant support for the HUF. Although the HUF and the rest of CEE are disconnected since the US election and are driven by other factors, the good sentiment seen in European equity markets including CEE seems to be returning the HUF to a normal trading environment where higher rate differentials mean stronger FX. At least this is positive news for inflation in Hungary. Over the next few days, we might see further gains across the board in FX, unless there are changes in the geopolitical landscape.

*Frantisek Taborsky*

## Author

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).