FX Daily: Market still mulling over Trump's first week

This week's dollar correction has not gone too far. Despite the heavy one-way positioning of the dollar, investors lack clarity on the timing of Trump's tariff threats, preventing them from reducing dollar holdings. Further consolidation is likely among the $ Majors as traders await a Trump dialogue in Davos today. Elsewhere we see downside risks to the Norwegian krone from today's Norges Bank meeting and see the Turkish lira staying attractive despite another 250bp rate cut today

Donald Trump and First Lady Melania Trump at the Liberty Ball following his inauguration on 20 January

USD: Some short-term uncertainty

Monday's correction in the dollar has not run very far at all. That sell-off was premised on Day One not nearly being as aggressive with tariffs as many had feared. Currently, the market's attention is on two significant upcoming dates.

1 April is a deadline for the US Commerce Department and the US Trade Representative to conduct a root-and-branch review of why the US persistently runs large trade deficits. Large trade

deficits are an anathema to the America First agenda. These reviews are due by 1 April and ING's Inga Fechner discusses what's at stake here. This means in theory, substantial tariffs may not come in until after April once the recommendations have been made.

The second big date is 1 February. Seemingly in off-the-cuff remarks, President Trump has floated the possibility of 25% tariffs on Mexico and Canada, plus 10% tariffs on China by this date if progress is not made on fentanyl or border issues. This threat is probably preventing the dollar from correcting further. That said we have been seeing a little more stability in some EM currencies, where the Brazilian real is sub 6.00 again after heavy local FX intervention.

Today the focus will probably be on Trump's digital dialogue in Davos at 11ET,16GMT/17CET. One new area of interest may be the international tax code, where he could potentially tariff counties trying to enact the OECD's Global Minimum Tax – clearly something on the mind of his tech industry sponsors. Let's see if we hear more about this today, but we would say this dialogue is another positive dollar event risk.

DXY could trade a 108.00-108.60 range today and again is very much exposed to Trump headlines.

Elsewhere, we note that Chinese measures to support the local stock market – by instructing state-owned mutual funds and insurers to buy more mainland stocks – have failed to move the needle on Chinese asset prices.

Chris Turner

EUR: Correction has been lacklustre

This week's EUR/USD bounce has been pretty muted so far. As above, there is no way investors can expect to hear an 'all-clear' signal on tariffs. And keeping trading partners off balance/guessing is a tactic that kept the dollar reasonably well bid during Trump's last tariff regime in 2018-19.

Another reason traders may not want to reduce their euro short positions is ahead of tomorrow's release of the eurozone flash PMis for January. Another dire set of confidence readings will only encourage the ECB to look through the tick-up in inflation and commit to a 100bp+ easing cycle this year. See Carsten Brzeski's ECB preview here.

EUR/USD looks like it might explore the lower end of a 1.0350-1.0450 range today should Trump have something more to say about tariffs. But the next big move may not emerge until the FOMC meeting next Wednesday, the US December core PCE deflator next Friday, and that seemingly 1 February tariff deadline.

Chris Turner

NOK: Norges Bank to reiterate March cut guidance (down)

Norges Bank is widely expected to keep rates on hold today. In December, Governor Ida Wolden Bache signalled rates could be cut by 25bp to 4.25% in March and forecasted another 50bp of reductions by the end of the year. Since then, oil prices have increased – generally a hawkish signal – but core inflation eased more than expected to 2.7% in December. Also, NOK has appreciated by around 1% on a trade-weighted basis.

On the whole, the key variables monitored by NB have not clearly argued a rate cut should be pushed beyond March. Also, the risks to global growth related to Trump's protectionism plans should encourage policymakers to allow some breathing room with a rate cut before the end of the first quarter.

Markets aren't fully pricing in the 75bp of easing by year-end currently in Norges Bank's projections, so there is some room for a small dovish surprise if Bache keeps guidance unchanged. EUR/NOK can move to fresh YTD highs (e.g. 11.85), but long-term considerations are not particularly bearish for NOK in a global trade war scenario compared to the EUR or SEK. So sellers should be attracted before reaching the 12.00 mark.

Francesco Pesole

TRY: Attractive carry despite cutting cycle

The Central Bank of Turkey (CBT) is scheduled to meet today, the first time since the start of the cutting cycle in December. We expect the CBT to continue cutting rates by another 250bp to 45% in line with the market consensus, given recent positive signals on the inflation outlook that are likely to further raise the level of real interest rates and lead to tighter financial conditions if the central bank does not act.

We anticipate that the forward guidance will stay consistent today, indicating a cautious and data-driven strategy for future rate cuts. The statement is expected to highlight a decrease in the underlying trend of monthly inflation in December, while also noting a temporary increase in January to manage inflation expectations and signal prudence.

In FX, the cutting cycle's start in December brought higher USD/TRY volatility but mainly to the downside with the CBT's hawkish messages and narrower rate corridor. Since the beginning of the year, TRY has resumed its trend of nominal depreciation. Despite the onset of gradual FX carry deterioration, TRY continues to outperform other emerging market currencies and remains our favourite carry trade for this year.

Frantisek Taborsky

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

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