

FX Daily: Markets eager to move past Venezuela

The benefits to the dollar from the Venezuelan events lasted half a day, with focus shifting back to data (ISM manufacturing was weak) and equities shrugging off geopolitical risk. But we retain a modest bullish bias on the seasonally favoured dollar in the near term, as the market's sanguine approach leaves risk assets and high-beta currencies exposed



Our early assessment of Venezuela's impact on the dollar is neutral to slightly positive in the near term

➔ USD: Sanguine stance on Venezuela

A little over 48 hours after the US military operation in Venezuela, there are few marks left in the currency market. Early Monday's flight into dollar safety proved very short-lived, as early signs of dialogue between the US and Maduro's successor, Delcy Rodríguez, are reducing the perceived probability of another imminent US military action in the near future. Our early assessment of Venezuela's impact on the dollar is neutral to slightly positive in the near term – higher geopolitical risk, but no major implications for the US and oil market – and skewed to the downside in the medium term, should markets find enough conviction to price in increased oil supply and take crude prices lower.

The good performance of equities yesterday, despite geopolitical risk, was, in our view, the primary driver of the unwinding of earlier dollar gains; data also played a role. The US ISM manufacturing index dropped below 48 in December, marking a fourth consecutive monthly decline and the lowest level since October 2024. The backlog of orders also continued to shrink at 45.8, suggesting a risk of inventory build-up and potential employment hit in the months ahead.

That release may be setting a softer tone ahead of tomorrow's ISM Services, while today's US calendar only includes non-market-moving final S&P PMIs for December. On the Fed side, we'll hear from Barkin (hawkish-leaning, non-voter) and Miran (ultra-dove, voter).

Despite the quick unwinding of safe-haven USD demand yesterday, we remain modestly biased to a stronger dollar in the near term. Seasonality is positive in January, and markets' sanguine stance on geopolitics leaves risk assets and high-beta currencies exposed to re-escalations, both in Latam and potentially in Greenland.

Francesco Pesole

➔ EUR: Slightly lower inflation shouldn't matter much

Today is a national holiday in several EU states, which can reduce FX volumes traded. Still, Germany releases December CPI data this afternoon, which we expect to slow down from 2.3% to 2.1% YoY, in line with consensus. This should endorse market expectations of a 2.0% eurozone inflation print tomorrow.

Despite some scattered calls for retaining flexibility by ECB doves after the December meeting, markets remain aligned with hawks like Isabel Schnabel, who has clearly pointed out that further cuts are unlikely in the foreseeable future. Barring major growth reassessments, downward drifts in inflation probably need to be rather marked to have markets seriously reconsider a cut in 2026.

EUR/USD remains driven by the dollar leg for most of it. The US's increasingly hawkish narrative on Greenland is surely a frontier risk to keep an eye on. EUR/DKK is an interesting gauge to monitor in this sense. It's already trading on the strong side relative to the peg, which would likely need to be defended with heavy intervention should the US move militarily in Greenland.

Barring escalations on that end, we think EUR/USD may build an anchor around 1.170 in the near term.

Francesco Pesole

⬇️ CAD: In a vulnerable spot

The Canadian dollar is the worst-performing currency in the G10 since the weekend. Markets are clearly weighing the risks of increased supply of Venezuelan oil in the future, which would disadvantage Canadian heavy, high-sulphur crude, which had been trading at a premium during Venezuela's supply glut. The Western Canadian Select-WTI widened slightly on Monday, confirming the commodities market is trading carefully on these geopolitical events.

However, CAD is in a more vulnerable spot. Our short-term fair value model suggests the pair should be trading above 1.380, and we think markets may still be underestimating the risks of USMCA renegotiation uncertainty's impact on the economy and the risks that the Bank of Canada may have to cut again in 2026.

We continue to favour other high-beta currencies like NZD, SEK and NOK over CAD for now, and we see risks to the 1.390 area in USD/CAD.

Francesco Pesole

➔ CZK: Answers to questions about fiscal policy

Today will be more muted in the CEE region again, with Poland and Romania closed for holidays. The calendar does not have much to offer and the focus will be on the Czech Republic and fiscal policy. The Ministry of Finance, under the leadership of the new government, is holding a press conference on the state budget result and has already indicated in previous days that the deficit will exceed the planned CZK 241 billion (total public finances 1.9% of GDP in the MinFin forecast). This is a very unusual situation for the Czech Republic, last seen in the GFC years. The new government is also working on the budget for this year and for now the MinFin is on a provisional budget. Today's press conference could also indicate where we are heading for this year.

By the end of the week, MinFin will also publish a funding strategy indicating this year's supply of Czech Government Bonds (CZGBs). According to our estimates, the supply of bonds will remain roughly unchanged due to the strong pre-financing at the end of last year. However, after previous headlines reassuring the markets that the deficit will not go above 3% under the new government, the current development suggests some negative surprises again.

The market was trading CZGBs with a significant term premium already before the October elections, and we only see some easing in the last few days and especially yesterday's rally. Although we see bonds as cheap at the moment, it could still be a bumpy road today and tomorrow with inflation figures. However, in the medium term, we believe that fiscal policy will remain moderate compared to peers in the region and the outlook with CNB rate cuts back on the table makes this market attractive.

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