

FX Daily: Monitoring central bank speakers ahead of US CPI

The FX market appears in wait-and-see mode ahead of tomorrow's US CPI. Today, there aren't key data releases, but we'll keep an eye on speeches by Fed member John Williams and the ECB's Isabel Schnabel as well as testimony from BoE Governor Andrew Bailey. The dollar's modest gains against pro-cyclical FX may consolidate while waiting for clearer direction



ECB board member
Isabel Schnabel

➔ USD: Holding pattern

It has been a quiet start to the week in FX. Markets are in wait-and-see mode ahead of tomorrow's US CPI data, and currently lacking a clear sense of direction. The dollar has been modestly supported, in particular against commodity currencies as equities had an uninspiring day yesterday. Our view remains that a gradual repricing of Federal Reserve rate expectations to a later start of the easing cycle will keep risk assets on unstable ground in the near term, helping the dollar recover some ground before a clearer downtrend emerges.

Today, the US calendar is quiet, with only MBA application numbers in focus. It will be more interesting to hear from New York Fed President John Williams in his speech about the 2024

economic outlook. The inconsistency between payrolls and the ISM services index makes the Fed's interpretation of the data particularly important. Our perception is that there still isn't enough weakness in the jobs market to justify a cut in March and the Fed may want to favour some hawkish repricing in the USD curve.

DXY should keep hovering around the 102.50 level until tomorrow's inflation data unless Williams moves the market.

Francesco Pesole

➔ ECB: Schnabel may protest dovish expectations

European Central Bank doves have given a nudge to the market's dovish rate bets since the start of the week. Yesterday, French Governing Council member Francois Villeroy reaffirmed that rates will be cut in 2024, after Mario Centeno said the first cut could come in the first half of the year. The more hawkish-oriented Boris Vujcic had previously said that easing before the summer was unlikely.

Today, there are two more doves speaking - Luis de Guindos and Pablo Hernandez de Cos - but we'll keep a closer eye on an online Q&A held by Isabel Schnabel at 1400 GMT. She often voiced the consensus of ECB hawks, and surprised markets by ruling out more hikes and shifting the discussion to easing in early December. Evidence of sticky inflation in the December report suggests she may favour a pushback against rate cut bets should she comment on monetary policy.

We could see some short-term benefits to the euro as hawks voice their inflation concerns, but those have proven to be neither sizeable nor long-lasting in the past months. The lack of market-moving data releases suggests EUR/USD should trade largely in line with global risk sentiment and US data this week. We expect the pair to consolidate in a 1.0880/1.1020 range in the coming days barring surprises on the US inflation side.

Francesco Pesole

➔ GBP: Bailey's testimony in focus

Bank of England Governor Andrew Bailey will testify before Parliament on the financial stability report published in December. Any reference to the future path of monetary policy may follow the tone of the latest BoE meeting, where Bailey focused on pouring cold water on rate cut bets.

Still, markets are pricing in 125bp of easing by the end of the year in the UK, only 15bp less than the eurozone and the US. We remain of the view that a deterioration in economic conditions in the UK will ultimately warrant substantial BoE rate cuts (we estimate 100bp), while markets are considerably overestimating the size of the ECB easing cycle. However, data releases and BoE commentary in the near term may encourage some hawkish repricing at the front-end of the GBP curve, which could keep pressure on EUR/GBP. We still target a rebound in the pair from 2Q onwards.

Francesco Pesole

📌 Scandies: Norwegian underlying inflation declines further

Norway released CPI figures for December this morning, showing headline inflation remained unchanged at 4.8% while underlying inflation declined from 5.8% to 5.5%. The print was marginally softer than consensus and the krone is a touch weaker to start the European FX session. We expect further progress on disinflation and a deterioration in global conditions to lead to rate cuts by Norges Bank as early as 2Q, broadly in line with market expectations.

In Sweden, some November activity data was released this morning. Retail sales declined, while the month-on-month growth indicator was in positive territory (0.2%) despite expectations of a contraction. The implications aren't too deep for the Riksbank view though, given the backward-looking nature of the data and the bank's focus on inflation. December CPI numbers are released next week: expect some action in the krona.

We currently see some room for a rebound in SEK/NOK before the pair enters a structural downtrend that we see lasting until late this year.

Francesco Pesole

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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 <http://www.ing.com>.