

## FX Daily: Not too hot to handle

Rate expectations were not moved by slightly hotter-than-expected US CPI, and support for the dollar has mostly come through the risk-sentiment channel. Range-bound trading may persist despite conditions for a stronger dollar. Inflation in the CEE region is falling; the NBR leaves rates unchanged



### ➔ USD: Markets still attached to March cut

US CPI data came in a bit hotter than expected yesterday, with the core rate rising 0.3% MoM and slowing to 3.9% YoY versus 3.8% consensus. The upside surprise in headline inflation was bigger: an acceleration from 3.1% to 3.4% YoY versus the 3.2% consensus. The dollar jumped after the release, also thanks to weekly jobless claims printing lower than expected. Somewhat surprisingly, the US yield curve did not react by scaling back rate cut expectations, as a knee-jerk selloff in 2-year Treasuries was fully unwound within an hour of the CPI release.

We've already discussed how we did not expect this inflation read to leave a long-lasting impact on markets, and it definitely appears that most of the fixed-income investor community is almost overlooking the release. The support to the dollar appears mostly tied to the negative response in equities, given the neutral impact on short-dated US yields. A March rate cut is still over 60% priced in, and we still see short-term vulnerability for risk assets from a hawkish repricing.

The conditions for a higher dollar this month are surely there, but we have observed numerous

indications that markets remain reluctant to make short-term USD bullish positions coexist with the longer-lasting view that US rates will take the dollar structurally lower by year-end. The chances of rangebound trading until we receive clearer messages by activity data and the Fed are high.

Today, PPI figures for December will be released, adding information about lingering price pressures and potentially steering the market a bit more. On the Fed front, we'll hear from hawk Neel Kashakari.

*Francesco Pesole*

## ➔ EUR: Rejected at 1.1000

Yesterday, EUR/USD was rejected at the 1.1000 key resistance level, and in line with our dollar view, we now expect some more days of rangebound trading, with some modest downside risks for EUR/USD.

One factor that we wish to keep highlighting, though, is the rather wide potential for the euro to benefit from an unwinding of ECB dovish bets in the coming months. Markets continue to price in 140bp of easing by year-end, while our economics team only forecasts 75bp. We expect to see those benefits to the euro more clearly in pairs such as EUR/CHF in the short term rather than in EUR/USD, at least until a clearer dollar downtrend emerges (in our view, a 2Q story).

Other than some final December CPI reads in France and Spain (which shouldn't move the market), the eurozone calendar is empty today. The next key data input for the euro is the German ZEW on Tuesday. We'll keep monitoring ECB speakers to make sense of what is the "consensus" degree of rate-cut pushback the bank wants to convey to markets. Today, we'll hear from Chief Economist Philip Lane.

Elsewhere in Europe, Sweden's Riksbank releases FX sales figures for the week around Christmas today: expect a low number, or even zero, due to low liquidity conditions. In a [piece we published this week](#), we discuss how we expect the end of Riksbank FX sales by early February, hurting SEK in the crosses.

*Francesco Pesole*

## ➔ CEE: The inflation picture is complete

After the inflation figures in [Poland](#) and [the Czech Republic](#) for December, the numbers for Romania and Hungary were published today, completing the CEE picture. In Romania, inflation fell slightly from 6.7% to 6.6% YoY, in line with market expectations. In Hungary, we saw a big drop from 7.9% to 5.5% YoY, well below market and central bank expectations. The National Bank of Hungary was expecting 5.7% here in its latest forecast.

Later today, we will get retail sales and the current account in the Czech Republic. The current account for November will also be published in Poland. The statistical office in Hungary will hold a press conference on the CPI methodology, presumably introducing new weights for this year. However, the meeting of the National Bank of Romania will be more interesting. In line with the market, we do not [expect](#) any interest rate changes. Still, we could hear the current inflation assessment and some hints of rate cuts in the future. Romania is now the last country before the start of the cutting cycle within the CEE region and here we expect it to start in the second quarter.

Frantisek Taborsky

## 📌 CZK: Inflation surprise opens the door to more rate cuts

Inflation in the Czech Republic fell more than expected, from 7.3% to 6.9% YoY [yesterday](#). As a result, headline inflation remained slightly below the CNB forecast, while core inflation was in line. However, the decomposition shows a positive picture for the central bank, with prices falling across the consumer basket. No doubt the market has gone in the opposite direction to our expectations. Lower inflation opens the door for a possible larger rate cut in February. It's too early to have this as a base case scenario, but it will certainly be the main topic for financial markets for now.

The market moved in that direction after the inflation number, pricing in almost 50bps cut for the February meeting. EUR/CZK has jumped up to 24.700, last week's levels. The likely range for today will be 24.700-800, but we don't expect more weakness. CZK has proven resilient enough, and the market is already in short positioning. Therefore, we remain rather positive here, but the CZK will have to be at weaker levels for a bit longer than we expected.

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