

FX Daily: Not trusting antipodean weakness

The RBNZ changed its tone only moderately, keeping the threat of another hike on. However, NZD fell and AUD also declined after lower-than-expected CPI. We think Australia and New Zealand have inflation issues that point to extended hawkish outlooks and should deliver medium-term benefits to AUD and NZD. USD momentum should continue



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➔ USD: Regaining momentum

Yesterday, Durable Goods Orders and Consumer Confidence figures came in below expectations in the US. The former piece of data is a good indicator of broader business capex, which has effectively flatlined since mid-2022. In inflation-adjusted terms, it signals a declining trend. Sluggish investment plans from corporations have been one of the few reasons for concerns amid an otherwise strong growth environment in the US.

The Conference Board's Consumer Confidence was revised lower for January and declined further to 106.7 in February. Gauges of expectations and current conditions also declined. Markets may

not be reading too much into this considering sentiment data had been rather supportive into year-end 2023, even though the Conference Board reported consumers are now more concerned about the labour market. It is another case of dislocation between soft indicators and the hard data which continues to paint a very tight picture for US jobs.

Despite all that, markets have continued to gradually scale back Fed easing bets, now at 78bp for 2024, which has helped the dollar move decisively higher in Asian trading amid a substantial cooling-off in risk appetite overnight.

Today, along with January's wholesale inventories data, we'll see the second release of 4Q GDP in the US, which includes the personal consumption and PCE components. Expectations are for a confirmation of strong 3.3% quarter-on-quarter annualised growth as per the advanced release. Personal consumption may be revised mildly lower and core PCE should be confirmed at 2.0% QoQ. Tomorrow's PCE numbers for January are much more relevant for markets, and consensus is now aligned for a 0.4% month-on-month core print – even though the distribution of economists' expectations is skewed to the downside.

We remain of the view that evidence of resilient inflation in the Fed's preferred measure of inflation will offer more support to the dollar into the end of the week. We also have a few Fed speakers to watch today: the neutral Susan Collins and John Williams, and the hawkish-leaning Raphael Bostic.

Francesco Pesole

➔ EUR: 1.0800 test in sight

EUR/USD continues to follow the dollar dynamics without showing any material impact from eurozone-specific drivers. The pair looks likely to test 1.0800 in the coming days, in our view.

Today, some sentiment data (consumer, economic, manufacturing) will be released in the eurozone, but should not move the market substantially. The EUR-USD 2-year swap rate differential seems to have found a bottom recently but remains significantly wide in negative territory (130bp) and would be consistent with a softer EUR/USD if it wasn't for the supportive equity environment of recent months.

Among European currencies, the Swedish krona has had a strong month, but we still see domestic drivers pointing to limited further upside. The Riksbank recently turned dovish and we see this as a key vulnerability for SEK. This morning, the economic tendency index will be watched closely in Sweden.

Francesco Pesole

➔ NZD: Don't buy into NZD and AUD weakness

The Reserve Bank of New Zealand kept rates unchanged and did not tweak the projected rate path substantially. The new forecasts include a very marginally revised peak in the OCR at 5.60% as opposed to 5.69% in the November forecast, which lowers the implied probability of a hike to around 40%. The statement from the central bank, however, showed a clearer softening in the threat of more tightening.

The inflation forecast was revised lower to align it with recent figures, but it is unchanged when it

comes to the medium term. Headline CPI is still seen at 2.5% in 4Q24, and non-tradeable CPI projections were also unchanged at 3.4% for the end of this year.

We would have thought a real dovish pivot were required to deal a hit to the New Zealand dollar, which instead has dropped over 1.0% since the release. This is probably due to some unwinding of recently growing net-long positions on NZD and the fact that some investors were still expecting a rate hike this week. Our view in the medium term for New Zealand and NZD is – however – unchanged, given the content of this meeting and that new forecasts were in line with what was discussed in our [latest NZ note](#). NZD is due to benefit from an attractive carry for longer thanks to a more problematic disinflation path.

In Australia, January inflation was unchanged at 3.4%, below the 3.6% consensus. That contributed to the Aussie dollar's weakness this morning, with some of that weakness also a consequence of the RBNZ decision. Our economics team remains worried about the prospects of disinflation in Australia, and we expect higher inflation in February and towards the middle of the year before a clearer downward path re-emerges. We do not exclude another rate hike by the RBA, and we still think AUD looks attractive in the medium term.

Francesco Pesole

CEE: Further insight into Czech inflation in January

Today's calendar in the region offers only the Czech Republic's PPI for January. This could provide an interesting insight into the new year's repricing, which surprised significantly to the downside in the CPI in January. We will see more data in the CEE region over the next two days. EUR/CZK and EUR/PLN remain steady and so far this week, only EUR/HUF has attracted any real attention, moving above 390 as we expected after yesterday's [National Bank of Hungary rate decision](#).

However, the hawkish communication from the central bank after delivering a 100bp rate cut to 9.00% pushed market rates higher earlier than we expected, which could provide some support to the forint. We'll see where the market settles today, but we could see EUR/HUF back below 390 later on.

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