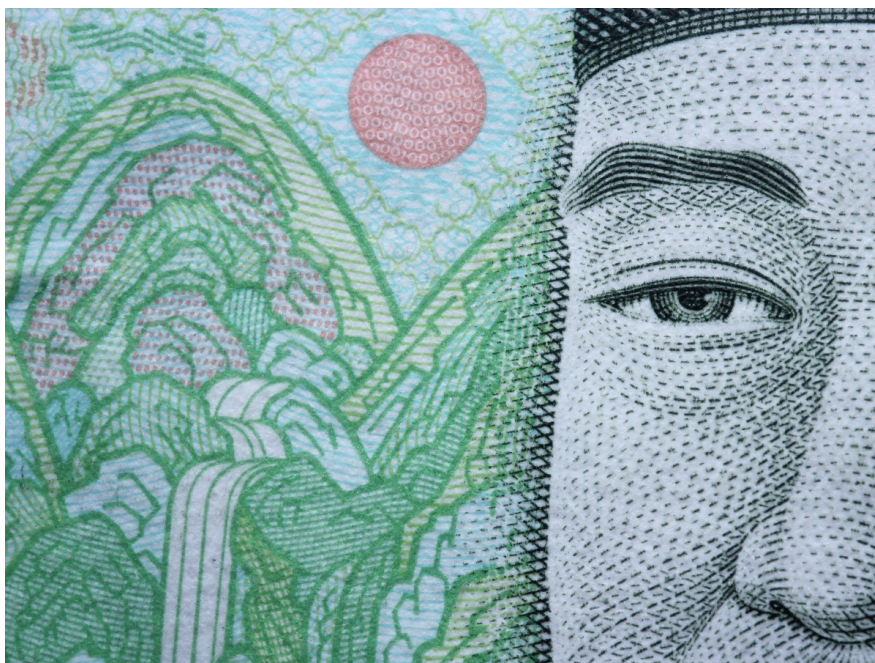


FX Daily: On the path to KRW deliverability

The dollar edged a little higher yesterday as a strong US January ISM release only added to the view that the Fed would not be in a hurry to ease policy. It looks to be a quiet day ahead with some focus on eurozone inflation expectations. Elsewhere, Korean authorities are testing long trading hours for the Korean won as it prepares for full deliverability



➔ USD: Dollar holds onto its crown

Another day, another piece of strong US data. This time it was the [ISM services data](#), which handsomely beat expectations and triggered a further back-up in US interest rates and a firmer dollar. As such there seems little incentive for investors and corporates to offload any of their dollar holdings. Additionally, as we've highlighted here before, February is typically a good month for the dollar. There is also the looming China Lunar New Year holiday next week, which may make the market reluctant to carry short dollar positions in an uncertain geopolitical environment.

Overnight we have seen the Reserve Bank of Australia keep the policy rate at 4.35% and retain its tightening bias. Like other central banks it remains concerned over sticky services inflation. The Australian dollar edged a little higher on the news, but looks unlikely to go too far given ongoing concerns with China.

There is little US data on the calendar today and we would expect DXY to hold recent gains near the 104.50 area and possibly head up to resistance at 104.75.

Chris Turner

➔ EUR: ECB inflation expectations in focus

EUR/USD broke lower again yesterday and now has support at the 1.0715/25 area. As we noted last week, EUR implied volatilities are staying quite low and suggest the market is not preparing for a major break out. We agree and think this will be more of a case of EUR/USD trading out something like a 1.07-1.09 range this month rather than pushing down to 1.05.

The calendar is light today but for the release of the European Central Bank's consumer inflation expectations survey for December. Here, the one and three-year surveys printed 3.2% and 2.2% in November and presumably will have dipped a little further given the trajectory of the CPI release. We doubt this release will do much to short term eurozone money market rates, which look to be dragged around by the US data currently.

Chris Turner

This morning, we've either already seen or will see a series of hard data for December. In Romania we will see retail sales data. In Hungary, industrial production and retail sales data will be released. In the Czech Republic, later we'll see industrial production, construction output and trade balance. The overall picture will test the economic recovery in the region, which so far shows only weak signs of improvement. In no surprise, yesterday brought bearish sentiment to the region – which was particularly visible in HUF and PLN. However, we don't expect much change today thanks to a stronger USD again and core rates going up.

Frantisek Taborsky

⬇️ GBP: BoE talks rate cuts

We have not heard too much from the Bank of England this year outside of MPC meetings, but Chief Economist Huw Pill suggested yesterday that a rate cut was possible this year and that inflation did not need to be at 2% before action could be taken. Those comments have helped drag EUR/GBP further away from big support levels at 0.8500/8525.

We do have a bullish profile for EUR/GBP this year – largely on the view that the BoE cuts more aggressively than the ECB. Let's get the sterling positive event risk of the budget out of the way in early March and then the market should be able to focus on the sharp drop in UK headline inflation through the second quarter, as well as a softer pound.

Chris Turner

KRW: On the path to deliverability

Korean authorities have today started a trial to extend local onshore trading of the Korean won from 6:00pm to 2:00am Seoul time. The trial comes as part of a package of measures that ultimately could deliver full deliverability to the won.

Please see our full analysis on this topic and what it could mean to USD/KRW NDF bid/offer spreads [here](#).

Chris Turner

Authors

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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