FX Daily: Prospects of a ceasefire lift European FX

European currencies received a lift late yesterday following an update from Donald Trump that he'd had productive discussions with Vladimir Putin about a ceasefire in Ukraine. The rally may have a little further to run, yet the stiff headwinds of potential US tariffs on Europe and sticky US inflation/high US rates will limit the EUR/USD upside

A lengthy telephone conversation took place between Russian President Vladimir Putin and US President Donald Trump

USD: Scope for further correction unless new tariffs announced

On a normal day in FX markets, yesterday's much-higher-than-expected US inflation print should have left the dollar stronger across the board and risk assets under pressure. That was the case for a few hours before the headlines hit that Trump had had a 90-minute call with Putin to discuss an end to the fighting in Ukraine. For now, financial markets are overlooking what a shift to US isolationism would mean for European security. In Brussels yesterday, new US Defence Secretary Pete Hesgeth said that US troops would not be part of any peace-keeping force in Ukraine and that such a force would not be protected by NATO's Article 5.

Instead, financial markets are focusing on the benefits of improved confidence in the region and less disruption to global energy supplies. Here crude oil and European natural gas prices came off sharply yesterday – a good news story for global growth and a mild dollar negative. At the same time, there is a little optimism emerging in Chinese asset markets, where local tech stocks are doing a little better post the DeepSeek news and once again expectations are building that Chinese policymakers might have some new support measures to announce when they next meet in early March. This has seen the onshore USD/CNY cross back under 7.30 again.

The above all sounds positive for global growth expectations and could encourage some paring back of short positions in commodity and EM currencies. What is limiting that correction, however, is the ongoing threat of tariffs. The prospect of 'reciprocal' tariffs is still hanging over FX markets this week and apparently Trump signs his next batch of executive orders at 19CET today. The market will be focusing on whether those tariffs only hit the likes of India, Brazil and Korea – which are among the higher tariff regimes. And also whether these tariffs are again back-dated – providing, for example, a month for the tariffs to be negotiated away.

Away from geopolitics and tariffs, today's US focus is on the initial jobless claims and PPI. Any upside surprise to PPI – and what it means for the core PCE deflator released on 28 February – is a mild dollar positive. But for now, we slightly favour a move in DXY towards 107.00/30, with outside risk to the 106.35 area.

Chris Turner

EUR: Some welcome news

Despite the jump in short-dated US rates yesterday, EUR/USD has moved smartly higher on the back of the Trump-Putin story. Shortly before those headlines hit, the euro was also rallying on comments from European officials that they were currently negotiating with their US counterparts to try and avoid tariffs. Please see our trade team's view here. Progress on peace in Ukraine could be an important positive for European countries should it deliver lower energy prices and encourage broader investment on the back of something like a new Marshall Plan. Meeting customers this week we have been discussing some potential positives for Europe – given current above-average savings rates – if only confidence can improve.

Yet it is the threat of tariffs that hangs as a dark cloud over a region and it seems unlikely that businesses or consumers will be able to conclude anytime soon that the tariff threat has receded. No doubt speculators are currently paring back euro short positions. Yet those positions are not extreme and the sticky US inflation story is keeping rate spreads very wide in the dollar's favour. That is why this EUR/USD correction will likely be a hard slog back to 1.0500/0530 with an outside risk of 1.0575.

Elsewhere, EUR/CHF can probably extend its gains. A weaker Swiss franc will likely be welcome for the Swiss National Bank (SNB), where Swiss inflation should drop to 0.2% YoY in the second quarter and the SNB has local exporters on its back over a strong Swiss franc.

Chris Turner

GBP: GDP numbers not as strong as they look

Here are the thoughts of our UK economist, James Smith, on today's seemingly better-than-expected GDP figures.

"UK GDP was a bit better than feared in the fourth quarter but the outperformance was solely because of a massive increase in inventories. Remember these are volatile and don't tell us much/anything about the underlying economic fundamentals. Consumption was flat. Business investment fell sharply despite some really good numbers earlier in the year. Net trade was poor. So it's a lacklustre story which puts pressure on the Treasury to find savings. The OBR, which polices the fiscal rules, has forecast 0.4% in Q4 and therefore it will be revising down its highly optimistic 2% 2025 growth forecast."

EUR/GBP dropped 20 pips on today's data, but as James says a re-assessment of the data could see sterling hand back its gains. We're negative on sterling into the second quarter and suspect that EUR/GBP will find support this month in the 0.8300/8350 area.

Chris Turner

CEE: Higher rate differential adds to positive mood

This morning, we received some monthly data from Romania, and later today, we will see the 4Q24 GDP figures from Poland. While the preliminary full-year numbers hinted at certain trends, the actual figures will be released today. These should confirm that economic activity picked up towards the end of 2024, following a slowdown in the third quarter. The preliminary estimate of 2024 economic growth implies the fourth quarter came in around 3.4% year-on-year from 2.7% YoY in the third quarter. Household consumption improved, while fixed investment growth remained weak. In the afternoon we also have National Bank of Hungary governor György Matolcsy and deputy governor Barnabás Virag scheduled to speak. This should be the first speech since Tuesday's upside inflation surprise.

CEE FX continues to make gains across the board. Yesterday we received more headlines regarding the Ukraine peace deal discussion following Trump's phone call with Putin. This is likely to continue in the headlines and therefore we can't expect much of a trend change in the region. This is supported by a higher EUR/USD despite the spike in US rates after CPI numbers and improving rate differentials in the CEE region. Thus, we expect the current rally to continue until at least the end of the week.

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