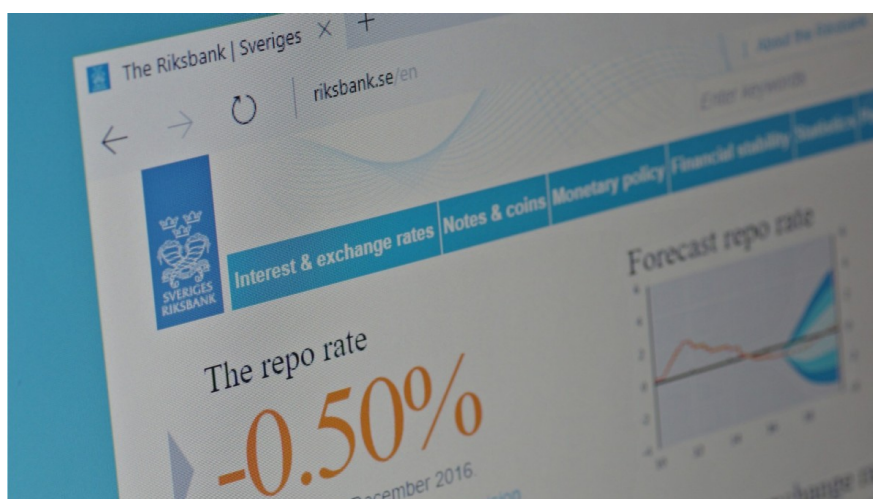


FX Daily: Riksbank to take another step towards normalisation

A stubbornly range-bound EUR/USD which has shown unresponsiveness to ECB speakers (we'll hear from a few more today) may break below 1.1400 today as another acceleration in US core inflation could lift the dollar against the low yielders. In Sweden, the Riksbank may bring forward their projected hike to 2023 and signal faster reinvestments, helping SEK.



Source: Shutterstock

US: Upside potential as core inflation accelerates

High-beta currencies jumped yesterday as global equities staged a solid rebound. AUD and NZD are clearly emerging as the two quintessential pro-cyclical currencies, having tracked very closely the swings in global sentiment. Domestic factors appear to be playing a secondary role lately.

The dollar has traded in rather narrow ranges against most G10 currencies (and especially the low-yielders) after last week's rollercoaster action. This may have been due to some wait-and-see ahead of today's US CPI numbers. Consensus is expecting another increase in January headline inflation, from 7.0% to 7.2%, while the core rate may jump close to the 6% mark. We think there aren't many downside risks to the dollar from today's release (except from some position-squaring after a big data release), as a slightly below consensus read should do very little to dent

expectations on Fed tightening. Instead, CPI numbers could be the trigger for markets to make a conviction call on a >2.0% terminal rate.

Any post-CPI dollar strength should be channelled primarily against the low-yielders, and DXY could re-approach the 96.00 level.

⬇️ EUR: More ECB speakers today

Hawkish comments by ECB members poured in yesterday, as Germany's Joachim Nagel said that the ECB has now reached a point that is a "textbook case for central-bank action", explicitly opening the door to a hike by year-end. Another known hawk, Isabel Schnabel, stressed the upside risks to inflation and noted that inflation is moving towards 2% in the medium term.

We have a plethora of other ECB speakers today to keep an eye on - Guindos, Villeroy and Lane - who are normally more dovish voices in the policy discussion. Any hawkish comments from them should therefore make for a bigger surprise.

EUR/USD has been notably unreactive to ECB speakers after last week's policy meeting. After all, President Lagarde's message was clear: the March inflation projections hold the keys to the monetary policy outlook, and markets seem to be willing to patiently sit on post-ECB levels into the March meeting. Still, the US CPI report can trigger a break below 1.1400 in EUR/USD today.

Elsewhere in Europe, we have the Riksbank meeting (please see the SEK section below) and Norway's inflation report for January. While the headline rate is expected to drop to the 4.2% level (from 5.3% in December), underlying inflation may ease only marginally (from 1.8% to 1.7%), which should continue to argue in favour of Norges Bank tightening. EUR/NOK upside may be capped to the 10.13 200-d MA in the near term, while an upside surprise in Norway's CPI today could bring the pair back to the 10.00 gravity line.

➡️ GBP: All eyes on Bailey's speech

Yesterday, the Bank of England's Chief Economist Huw Pill stroke a rather cautious note on monetary policy, by signalling both the risks to taking unusually large steps in monetary tightening and by stressing how hitting the 1% policy rate won't automatically trigger active QE sales. This may have held GBP back a little yesterday, amid a supportive environment for pro-cyclical currencies.

Today, we'll hear from BoE's Governor Andrew Bailey, while the UK data calendar looks very quiet until tomorrow's GDP figures. We may continue to see little action in EUR/GBP for now, while some USD strength today could see Cable test the 1.3500 February lows.

⬆️ SEK: Expect another gradual hawkish step by the Riksbank

The Riksbank's policy announcement today should be more interesting, after the ECB took a clear step on the hawkish side of the spectrum last week. However - as discussed in our [Riksbank preview](#) - we suspect policymakers in Sweden will keep their shift to a hawkish stance quite gradual, and any change to the projected rate path should see a first hike only in 2023. A lot of focus will also be on balance sheet management, as the RB could signal a faster reduction in the reinvestment of maturing assets, therefore allowing its BS to shrink earlier in 2022 than previously intended.

Considering how markets have consistently judged the RB as being well behind the curve, signals of a 2023 hike should be enough to consolidate market bets on 2022 tightening (75bp are priced in for the next 12 months). We think this can help SEK – which looks approximately 2% undervalued vs the EUR – find some support, with some stabilisation in US tech stocks (to which the krona is particularly sensitive) also helping out.

We expect EUR/SEK to slip into the 10.30-10.35 range today.

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