# FX Daily: Scandies and CEE outperform

As we await the next tariff news from the Trump administration, it is noticeable that some European currencies are outperforming. The Scandies, in particular, and some parts of the Central and Eastern European complex have more than held their own against the strong dollar. Relative rate differentials help, but Ukraine optimism is in play, too


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## USD: Rates, tariffs and energy all help

The DXY dollar index is staying relatively bid above 108.00 as markets remain gripped by the tariff threat. 'Reciprocal' tariffs could be due any day and the market remains uncertain whether these would apply only to certain key sectors, such as autos, pharma or semiconductors – or more broadly. US President Donald Trump is supposedly set to sign another batch of executive orders today at 1600CET, so let's see.

Also helping the dollar have been energy prices. The Rest of the World views purchases of US LNG as a key balm to soothe impending tariffs. This week it is Indian energy importers ready to sign new LNG deals ahead of PM Narendra Modi's visit to Washington. This comes at a time when natural gas prices are rising as Europe deals with a cold snap and declining Russian gas imports. Higher gas prices and more geopolitical deals to purchase US LNG are dollar-positive.

It is a quiet day on the US data calendar, where US small business optimism should largely hold onto the surge seen after last November's election result. In focus, however, will be Federal Reserve Chair Jerome Powell's semi-annual monetary policy testimony to the Senate at 1600CET. We doubt he needs to sound any more dovish at the moment and we see his speech as a neutral/positive event risk for the dollar.

DXY could nudge up towards the 109.00 area if Trump announces broader reciprocal tariffs today.

*Chris Turner*

## EUR: Staying offered in Europe

EUR/USD remains offered as the weekend announcement over steel tariffs was the first to hit the EU. Europe is now bracing for other sectors, such as autos, to be tariffed. There is little justification for the EU bloc as a whole to be hit with reciprocal tariffs since the EU tariff regime is relatively low. But, presumably, European politicians are more fearful about broader tariffs in April once the US Commerce Department delivers its report on why the US runs large trade deficits.

Whatever today's news on tariffs, wide rate spreads justify EUR/USD continuing to trade near 1.03 and undermine the need for any corrective bounce. As our rate strategy colleagues discuss here, the decoupling of the eurozone from US rate spreads can see differentials stay wide, if not move wider over the coming months. Combined with rising natural gas prices, expect EUR/USD to stay offered. A decline towards the 1.0250/60 range, or potentially lower, seems probable ahead of the new tariffs.

Even though EUR/USD is range-bound, we are starting to see some decent moves lower in EUR/SEK and EUR/NOK. In EUR/SEK, two-year swap differentials have moved in favour of the krona as the ECB is priced for another 88bp of easing this year, while the Riksbank is barely expected to cut once. But the story seems larger than rate differentials, and like its CEE peers (see below), the krona is shaking off the rise in gas prices. This resilience may be driven by growing optimism about a potential ceasefire deal in Ukraine. Expectations are that the US will reveal more of its plans at a Munich security conference this weekend – although any breakthrough with Russia would be a major surprise and is not priced in FX markets.

For now, however, EUR/SEK can drift down to the 11.15 area. And Norway, benefiting hugely from the rise in energy prices, can see EUR/NOK test and possibly break 11.50.

*Chris Turner*

## GBP: All eyes on Catherine Mann

Former UK MPC arch-hawk and now arch-dove, Catherine Mann, speaks at 0930CET today. We are all interested to hear why she flipped her voting intentions at last week's BoE meeting. An interview given by her to the *Financial Times* today looks to largely have answered that question. Her fear is that demand conditions are weakening, corporate pricing power is fading and there is a risk of a 'non-linear' drop in employment.

Further comments along those lines this morning could see the markets firm up pricing of three further 25bp BoE cuts this year. Currently the market prices just 66bp. We do think GBP/USD is more vulnerable than EUR/GBP, however. This is because the euro could get hit should Washington turn its attention to the EU auto sector. 1.2250 looks like the near-term target for GBP/USD.

*Chris Turner*

## CEE: Hungarian inflation remains above central bank forecast

Today in the region we only have January inflation in Hungary, released this morning. The headline number rose from 4.6% to 5.5% YoY, above our and market expectations. The National Bank of Hungary had expected 4.60% for January. However, the December number had already surprised to the upside by 0.3pp, so today's number widens the deviation from the central bank's forecast. Otherwise, the second half of the week will be busier with most releases on Friday.

The opening of the week was positive for the region. As we discussed yesterday, speculation about peace talks between Ukraine and Russia is filtering through to the markets regardless of the details of a possible deal. Thus, the CEE market can ignore a stronger US dollar or higher gas prices or threats of trade wars. Long positioning has been building in PLN and HUF in particular for some time now so we don't like to chase this rally, but for now, nothing prevents EUR-crosses going a little lower. This should also have a positive impact on fixed-income assets where we can see a decent rally as well despite the negative fiscal policy picture and heavy bond issuance. The key will be the weekend security conference in Munich, which could reveal how close we are to some first realistic draft agreement, deciding on further direction for CEE markets.

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