

FX Daily: So far, so good

Risk assets are largely holding onto their 2023 gains, buoyed by the view that recessions may be mild and that slowing price pressures could allow the Fed to respond if need be. This has left the dollar gently offered. Ahead of next week's Fed and ECB policy decisions, this week's focus will be on US 4Q GDP, PMI readings, and rate decisions in Canada and Hungary



➔ USD: Dollar to stay gently offered

The dollar starts the week gently offered. Trading conditions in Asia overnight have been quiet as China starts a week of public holidays for the Lunar New Year. A quick review of asset market performance year-to-date shows equities performing well with European and Chinese equities leading the pack at +8%. Bond markets have also been performing well, led by the emerging market local currency sector. The big question for this year remains whether we will see a differentiation between equities and bond markets as the US and Europe go into recession. And indeed, it seems that credit market participants are reluctant to drive credit spreads any narrower at this stage in the cycle.

Ahead of next week's Fed meeting, the US focus this week will be on the provisional January PMI readings, where both manufacturing and services sentiment are expected to continue with

recessionary sub-50 levels. Thursday should see a reasonably strong 4Q22 US GDP figure of 2%+ quarter-on-quarter annualised, although as our [US economist James Knightley writes](#), that strength may be driven by the trade side and on the back of weak US imports. Friday sees the December personal income data, including the Fed's preferred measure of inflation, the core PCE deflator. James is sub-consensus on this, looking for a 0.2% month-on-month reading and supporting the narrative that the US inflation threat is easing.

The data calendar in theory should keep the dollar on the soft side this week. However, DXY has come quite a long way already and we doubt whether the market is ready to add to short dollar positions ahead of next week's FOMC meeting - which could pose a positive event risk to the dollar should the Fed push back on the 50bp of easing the market now prices for this year. As such, DXY may find support in the 101.30/102.00 range this week.

Chris Turner

➔ EUR: ECB pushback successful

Judging by the levels of the two-year EUR swap (3.19%) European Central Bank speakers have been successful in pushing back against last Tuesday's Bloomberg News story that the ECB wanted to slow the pace of its hikes after February. This story had sent this swap rate down to 3.05%, softening EUR/USD with it. Both of those trends have now been reversed. However, as above on the dollar story, we suspect investors may be reluctant to chase EUR/USD through resistance at 1.0950/1000 ahead of next week's central bank event risks.

In terms of eurozone data, look for the provisional January PMI readings across the eurozone, Germany, and France (released tomorrow) and Germany's Ifo on Wednesday. The Ifo will be particularly interesting to see whether the expectations component picks up anywhere near as sharply as the German ZEW investor survey. Please see here for our eurozone macro team's [latest views on the region](#). A bullish wildcard for the euro could come from any further comments on new joint EU bond issuance to support green investments, as European politicians attempt to support local industry in the face of President Biden's Inflation Reduction Act.

Elsewhere, Francesco Pesole has today published a [scenario outlook for the EUR/SEK](#). Our core view is for a lower EUR/SEK this year.

Chris Turner

➔ GBP: Holding its own

Sterling continues to perform well and is holding onto the gains made last week on the back of high wage and core CPI readings. The market now prices a 45bp Bank of England (BoE) hike at next week's meeting. The firming up of BoE tightening expectations has allowed sterling to match this year's strength of the euro. And certainly, there has been a marked improvement in the perception of UK sovereign risk as evidenced by the five-year sovereign CDS trading back down to 22bp last week.

This week's UK calendar mainly focuses on the January PMI readings, where again both the manufacturing and services components are expected to be in recessionary territory. Overall, we suspect GBP/USD might not have the momentum to sustain a break above 1.2450/2500 this week, while EUR/GBP should find support in the 0.8700/8730 area.

Chris Turner

➔ CEE: All eyes on the Hungarian forint

This [week](#), the region gets interesting again. Today, we get a series of monthly indicators from the Polish economy, which should show further signs of slowing. The main focus will be on industrial production, which we estimate grew by 1.2% year-on-year, less than market expectations. Tomorrow, consumer confidence in the Czech Republic will be published and later we will see the decision of the [Hungarian National Bank](#) (NBH). We saw a downside surprise in December inflation, but believe the peak is still ahead. We do not expect any changes in monetary policy settings, but the market will be looking for some signs of an early interest rate cut. In our view, the NBH will maintain a hawkish tone and will not encourage speculation of premature action. On Wednesday, Poland will release labour market data.

Besides the calendar, we can expect further statements from the Czech National Bank board members before the blackout period for the February meeting begins on Thursday. However, at the moment everything points to continued stability in interest rates. In Hungary, Fitch downgraded the sovereign rating outlook from stable to negative on Friday. The agency cites among the reasons the delay in payments from EU funds, which implies insufficient progress in the EU story. In addition, this Friday, S&P will publish a rating review of Hungary. The agency already downgraded its outlook in August.

In the FX market, at the global level, not much changed for the CEE region last week. Higher EUR/USD, improving sentiment in Europe and low gas prices should remain supportive for FX in the region. However, all eyes will be on the Hungarian forint this week as it faces an NBH meeting and rating risks. We believe the forint will find a way to maintain its current strong values at the end of the week despite higher volatility. A deterioration in the outlook should not be a major surprise for the market and we also expect the hawkish NBH to dampen the current market speculation on an early rate cut, which should be positive for the forint. On the other hand, positioning is on the long side according to our estimates though if everything goes according to plan, we could test 390 EUR/HUF. Elsewhere, we see the Czech koruna still near 24.00 EUR/CZK and the Polish zloty should go below 4.70 EUR/PLN.

Frantisek Taborsky

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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