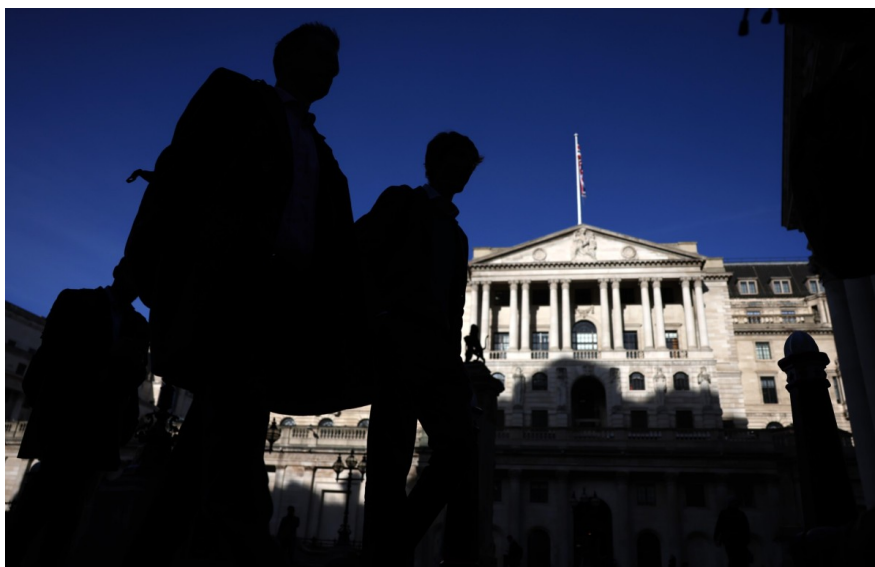


## FX Daily: Sterling could hand back recent gains

The dollar remains in corrective mode on the back of this week's tariff news and the drop in 10-year US yields. Tomorrow's US jobs data will have a big say in whether this correction needs to go further. Today, the highlight will be the Bank of England rate meeting, where a 25bp rate cut is expected. Rate cuts are also expected in the Czech Republic and Mexico



We expect an 8-1 vote to cut rates at the Bank of England meeting today

### ➔ USD: Dollar bull trend situation report

The DXY dollar index is roughly 2% off its recent highs and the question for investors is whether a further 1-2% is required. Driving this correction have been several factors, the largest of which has probably been this week's tariff news, where it looks like the Trump administration has been using tariffs for transactional not ideological purposes (this may change in the second quarter).

Important as well has been the drop in 10-year US Treasury yields below 4.50%. A well-received Quarterly Refunding announcement yesterday certainly helped. Our rate strategy colleagues discuss that move [here](#). The move lower in USD/JPY has caught the attention as data and Bank of Japan commentary have built up confidence in this year's BoJ tightening cycle.

Determining whether DXY corrects another 1-2% will probably be tomorrow's jobs data. We saw earlier this week from the US JOLTS job opening data that soft figures can hit the dollar. Yet we doubt the dollar correction will last too long. We look for more structural and broader tariffs to come back into play in the second quarter. Our rates team also doubts US Treasury yields will drop much further from here. So while a soft NFP number tomorrow could drag DXY back towards the 106.35/50 area – we would see that area as the bottom of the trading range this first quarter.

Today the US calendar is pretty light. Unless jobless claims rise dramatically, DXY probably trades in a tightish 107.50-108.00 range.

*Chris Turner*

## ➔ EUR: Some renewed attention on Ukraine

One wild card for EUR/USD this year is what happens in Ukraine. Yesterday the FX market took note of the further rise in Ukraine's hard currency bonds. As our EM Sovereign Strategist, James Wilson, notes, Ukraine's international bonds rallied some two points in price terms (3-4% price returns on the day) amid optimism that negotiations could bring a potential peace deal closer.

Reports that the US will unveil a peace plan at next week's Munich security conference, in addition to signs that both countries' leaders are softening their stance towards potential talks, are positive triggers. Last year's restructured bonds reached their highest price since issue, while the nation's GDP warrants reached their highest price since January 2022, after steady gains since mid-2024. Developments here will be watched next week and could offer a little support to EUR/USD.

As above with our DXY comments, the question is whether tomorrow's US jobs numbers need to drive the EUR/USD correction briefly back up to the 1.0530/70 area. We cannot rule that out, but doubt that any gains above 1.05 hold for long. We're still happy to look for a move back to 1.02 later this quarter, with 1.00 the likely trajectory in the second quarter when broader US tariffs are brought in.

1.0370-10450 should be the extent of the EUR/USD range today. We doubt eurozone retail sales for December or ECB speakers (Vujic and Nagel) will be a market mover today.

*Chris Turner*

## ⬇ GBP: Sterling could hand back recent gains

The Bank Of England's trade-weighted sterling index has rallied 1.7% since the middle of January. The recovery from the gilt-triggered January sell-off has undoubtedly been helped by the rally in US Treasuries. Additionally, the recent focus on tariffs has been a EUR/GBP negative, with the UK less exposed and the UK perhaps even being granted a tariff exemption from the Trump administration – if this week's comments are to be believed.

However, the external environment may sour if US Treasury yields rise again, which is the house view. And the brief reprieve in the tariff noise should allow investors to refocus on the UK's fiscal and monetary mix. Fiscal will be a story for March, but today the monetary angle reappears with the Bank of England meeting. Our UK economist, James Smith, [discusses all the scenarios here](#). We expect an 8-1 vote to cut rates and a downward revision to growth forecasts to be a mild sterling negative. Much more negative would be a 9-0 vote, should arch-hawk Catherine Mann vote for a rate cut.

We continue to favour GBP/USD topping out this quarter in the 1.25/26 area and see a strong case for it to be trading close to 1.19/20 later this year.

*Chris Turner*

## ➔ CEE: Same hawkishness but different paths for rates

Thursday is the busiest day in the CEE region this week. This morning we've seen some monthly data in Romania and Hungary including industrial production and retail sales. Later today we will also see inflation and other data in the Czech Republic. The January CPI number in the Czech Republic shows the highest seasonality within the region and therefore has a lot of Czech National Bank (CNB) attention. We expect a drop from 3.0% to 2.5% YoY, one-tenth below market expectations. Also, this print will be the first to be released in flash form and we will see the final release next week.

This will follow the decision of the CNB. We expect [a resumption of the rate-cutting cycle](#) and a 25bp cut to 3.75% in line with expectations and the central bank's previous communication. Of course, the inflation print may change the picture but our conviction is high here. The central bank will also unveil a new forecast which should see some dovish revisions but the governor's tone will be hawkish in our view. At the same time, we will also see the National Bank of Poland's (NBP's) press conference following [yesterday's decision](#) to leave rates unchanged. We should also see [a hawkish tone](#) from the Polish press conference.

In the case of the PLN, we prefer to be on the stronger side despite the current record strong levels, as we discussed here yesterday, due to the NBP's hawkishness and widening of the rate differential. On the other hand, the CZK is more complicated. We have been bearish since the last inflation print, which has produced mixed results. However, for today, we believe the soft inflation number this morning will bring a higher EUR/CZK – yet this move may reverse after the CNB presser. Overall, however, not much can be expected from EUR/CZK except higher volatility.

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