

## FX Daily: Sterling exceptionalism hits a speed bump

A better 30-year US Treasury auction and a US Federal holiday could bring some calmer conditions to bond and FX markets today. However, do not expect the dollar to hand back much of its recent gains as the market awaits Donald Trump's inauguration on 20 January and what that means for trade policy. Elsewhere, the UK gilt market has proved the Achilles Heel for long sterling positions. There could be some follow-through selling for sterling



### ➔ USD: Quieter bond markets should calm things

How to categorise the first three trading days this week? Monday saw sharp intra-day FX swings on [speculation over incoming US tariffs](#). Tuesday saw Trump's wide-ranging press conference espousing expansionist US foreign policy (including more tariff threats). And Wednesday saw this week's Treasury market sell-off (helped by a couple of poor auctions) lead to broader financial market volatility – enough to shake out [long sterling positions](#).

The good news for those seeking a little calm is that last night's 30-year US Treasury auction came in a [little better than expected](#) and that the US bond market should be quiet today on a US Federal

holiday and an early bond market close – that Federal holiday to mark the funeral of former president Jimmy Carter.

However, we doubt the dollar needs to hand back much of its recent gains. Last night's release of the [December FOMC minutes](#) confirmed the Fed's stance that it is ready to slow the pace of its easing cycle amid solid growth and upside risks to its inflation forecasts. The market now prices a pause at the 29 January meeting and does not fully price a 25bp cut until June. We have five Fed speakers later today, but the next big impact on expectations of the Fed easing cycle will be tomorrow's December NFP report, where some see upside risks.

Equally, the dollar is likely to stay strong into Trump's inauguration on 20 January. If Tuesday's press conference is anything to go by, Trump will come out swinging at the start of his second term – as we discussed in our ['Trump clean sweep' scenario](#) in August last year.

Elsewhere of note today is the [firm wage data in Japan](#) which we think makes the risk of a Bank of Japan rate hike on 24 January more likely. This – plus the threat of renewed FX intervention – will help firm up the view that USD/JPY will struggle to break through the 158/160 area.

Despite the risk of profit-taking, DXY found good support under 108 earlier this week. Expect tight ranges and the next big move only coming on tomorrow's payrolls, unless Trump has something to say on Truth Social today.

*Chris Turner*

## ➡ EUR: Narrower rate spreads, but tariff threat dominates

EUR/USD remains fragile as US rates remain relatively firm, higher US Treasury yields undermine risk conditions and US tariff threats loom large. EUR:USD two-year swap rate differentials are actually narrowing a little in favour of the EUR/USD, but this week has proved that any EUR/USD gains can quickly be wiped out by the US trade story.

German November industrial production has come in a little better than expected today but is unlikely to move the needle for EUR/USD. Equally, a bounce back in eurozone November retail sales (11CET today) will not help much either.

Look for some more EUR/USD consolidation on what should be a quieter day. 1.0290-1.0330 may well be the extent of the EUR/US range.

*Chris Turner*

## ⬇ GBP: Sterling exceptionalism under pressure

Our best understanding of yesterday's sterling sell-off is that the global bond market sell-off touched a raw nerve in the gilt market and that then the gilt spread widening prompted investors to cut back on overweight sterling positioning. We discuss that in our reaction piece [here](#). Perhaps most relevant for GBP here is the positioning data, where investors had felt that sterling could best withstand the over-riding strong dollar trend.

The gilt sell-off has however dented that confidence in sterling and the risk now is that sterling longs get pared as investors reassess sterling exceptionalism. As we all discuss in that article, we do not see very strong reasons for the gilt sell-off to extend for local UK factors, but there now

looks to be some modest downside risks for sterling. We stick by those sterling levels we mentioned in the reaction article.

*Chris Turner*

## ➔ CEE: Poland and Romania coming to market with first bond supply of the year

This morning we have some of the first hard data this year in the CEE region. The Czech Republic and Hungary are releasing industrial production and retail sales. However, the economy should still show rather weaker numbers for November. In Hungary we should also see the state budget result for last year, setting the benchmark for this year, which may get some market attention.

However, the main market focus will be on the first government bond auctions in Poland and Romania this year and the second auction in Hungary. Poland comes to market for the second year in a row with a record supply of POLGBs with fiscal risks pointing up. Demand has fallen over the past year as local banks have saturated demand and capacity while foreign demand remains by far the lowest among CEE peers.

In Romania, the market opened with a sell-off in ROMGBs after the holidays and the market seems to want to see more credible fiscal measures from the new government. In both cases, supply has been low in recent weeks due to the holidays and the end of the year and the market may be starved. On the other hand, the outlook for this year is rather negative and the sell-off in core rates only adds to the risk-off mood in the EM space.

FX remains in a bit of a holiday mood in the CEE region despite the busy global story. HUF saw some relief yesterday, but we see little chance of this being the start of a broader rally here. For now, we see stabilisation at these levels in the 414-416 range. Positive momentum can be gained by more closures of large short HUF positions, however we don't see much reason for the market to move in that direction at the moment given that the consensus seems to be heading for higher EUR/HUF levels later, which is our baseline as well with 420 at the end of the first quarter.

*Frantisek Taborsky*

### Author

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).