

FX Daily: Sticky inflation keeps dollar higher for longer

The dollar remains broadly bid after Friday's release of US PCE inflation data argued that the Fed needed to push rates higher and for longer. 25bp Fed hikes are now priced for March, May and June. Expect the dollar to hold gains this week, although China's February PMIs (Wednesday) and the US ISM Services (Friday) may prove a challenge



USD: Hard to argue with dollar strength near term

Friday's release of [US core PCE inflation data](#) for January completed what has been a very bond bearish/dollar bullish set of US data this month. We have learned that US inflation is proving much stickier and US activity firmer than we were led to believe in December and January. Understandably, investors are now taking the Federal Reserve hawks more seriously and have priced three more 25bp rate hikes from the Fed in March, May, and June.

This hawkish run of data also questions what the new set of Fed Dot Plots will look like when they are released on 22 March. The Fed's current median expectation sees Fed Funds at 5.00-5.25% by the end of 2023 and 4.00-4.25% by end-24. Both of these projections could be revised higher. This prospect could well dissuade investors from re-entering dollar short positions over the next few weeks. At the same time, the US 2-10 year yield curve is now inverted the most since the Paul

Volcker tightening of the mid-1980s - creating a headwind to risk assets. It is hard to see global equity markets pushing much further ahead until there are clearer signs that the Fed - and other central banks - can relent in their tightening cycles.

For this week, we think the macro highlights will be the ISM business confidence data in the US. The manufacturing component (released Wednesday) is expected to remain soft at 48. More interesting will be Friday's release of ISM services. Was the bounceback in the January services release merely weather-related or did it reflect much better optimism? This could help set the trend in US data through March. Investors will also be looking at the Chinese February PMIs released on Wednesday. A strong showing here could provide some support to the renminbi and to activity currencies in general - although as we [discussed on Friday](#), geopolitics does seem to be weighing on the renminbi too.

What does this all mean for the dollar? DXY broke above 105.00 on Friday and the multi-week bias looks towards resistance at the 106.20/106.50 area - some 1.00/1.20% above current levels. Through March we will better assess whether these prove the best dollar levels of the year.

Chris Turner

📉 EUR: Dollar strength to keep EUR/USD heavy

Like the Fed, the European Central Bank remains very much in hawkish mode. Investors fully subscribe to the ECB's message of a 50bp hike on 16 March and then price a further 80bp of tightening into year-end. This should be the key difference between the Fed and the ECB cycles. We think the Fed could be in a position to cut by year-end, while the ECB looks likely to keep rates at their peak throughout the majority of 2024.

There is not too much eurozone data this week but today sees eurozone business and consumer confidence for February - all expected to improve modestly. For EUR/USD, we think the strong dollar view will dominate. Expect 1.0500 to be tested, with a chance that it briefly trades down to the 1.0460 area.

Chris Turner

➔ GBP: Northern Ireland trade deal yet to provide a sterling boost

So far, sterling seems to be taking little notice of potentially improved trading and political relations between the UK and the EU. Later today, expectations are building that a deal will get announced between the two to soften the trade barriers on the Irish sea. It will be interesting to see whether this will be sufficient to get the DUP back into government in Northern Ireland.

An improvement in UK-EU relations probably does little for sterling in that it will not improve the broader trading environment between the UK and the EU. Instead, the macro-monetary settings of the two will continue to dominate. The ECB looks like it has much further to hike than the Bank of England and suggests that EUR/GBP continues to find support under 0.88. GBP/USD will be vulnerable to continued dollar strength and risks a move to 1.1850 this week.

Chris Turner

➔ CEE: NBH to assure market that it is too early for change

More action returns to the region this week. We start on Tuesday with the National Bank of Hungary meeting. In line with the market, we **expect** rates to remain unchanged. There is no discussion on the macro side. Central bankers are waiting for a tangible and sustained improvement in domestic and external risks and it is clear that the developments so far are positive but still insufficient for the NBH to reverse course. From a market perspective, however, the main question is whether the central bank can maintain the hawkish tone it set in January. PMI indicators for February across the region will be released on Wednesday. We expect a slight improvement in sentiment in Poland and the Czech Republic and a deterioration in Hungary. We will also see the final GDP numbers for the fourth quarter of last year across the region during this week.

On the ratings side, we have two interesting reviews in the CEE region this week - Moody's in Hungary and Fitch in the Czech Republic. More interestingly, Hungary received a negative outlook and rating downgrade recently from Fitch and S&P and we expect a negative outlook from Moody's as well. In the Czech Republic, Fitch downgraded the outlook already last year to negative. In our view, the risk of a rating downgrade has diminished since the last review in October but is still significant.

In the FX market, this week the main focus will be on the Hungarian forint to see if it can extend its rally. The main driver will be NBH and its efforts to maintain a hawkish tone. Given market expectations, the central bank may only deliver a small push to the forint, but it's still worth being bullish and testing new levels below 380 EUR/HUF, in our view. However, at the end of the week, Moody's will remind us that there are still a number of issues on the table in Hungary led by EU money access, which should bring the forint back to or above 380 EUR/HUF.

Frantisek Taborsky

Author

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

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.