FX Daily: Still searching for a bottom in US sentiment

US equities remained under pressure at the start of this week. Meanwhile, European stocks also fell, allowing the dollar to hang on to haven flows. Today's JOLTS numbers are a key risk event, and while we have a bearish EUR/USD bias for the coming weeks, it may be too early to pick the top in the pair

USD: Investor worries on US grow

The week has started with more risk off, with the S&P500 losing more than 2.5% on Monday. This time, the US equity slump was not isolated and European equities also suffered. As a result, the dollar hung on to its haven status better than when US-EU equities were diverging, and we saw some textbook risk off trading in FX: JPY, USD, EUR and CHF gaining against high-beta and commodity currencies.

It remains hard to pick a bottom in the US sentiment slump and the ramifications for US equities. Markets are questioning both elevated valuations and the broader US investment/macro environment, and while data can stir near-term sentiment, further loss of confidence may need to be tempered by the US administration itself.

Indeed, scattered calls for a US recession in the first quarter – even if probably overblown – aren't helping. Today's JOLTS job opening figures will be watched very carefully. The Fed's focus on the jobs market means that there will be high sensitivity for short-dated USD swaps to today's figures. Expectations are for job openings to have flattened in January, although greater focus may be on the layoff figures. We'll also watch closely the quits rate, which is a good leading indicator of wage growth.

Our view is that the dollar is embedding quite a lot of negatives at the moment and the balance of risks for the coming weeks has shifted to the upside. Nevertheless, in this jittery market environment, we are not ready to pick the bottom in the dollar before key data events have passed.

Francesco Pesole

EUR: German parliamentary hurdles not bothering the euro

Germany's Chancellor-to-be, Friedrich Merz, is facing obstacles to his plan to push through constitutional reforms to the debt brake before 25 March, when the new parliament is seated. Yesterday, the Green party – needed for the 2/3 majority – announced it would oppose the defence spending plan and requested greater environmental guarantees.

The euro dropped on the headline but quickly bounced back when it was reported that the Greens remain open to talks and CDU officials indicated optimism towards an agreement. The FX market continues to price in a best-case scenario for the euro, with the spending plan going ahead.

The eurozone calendar is light this week so developments in German politics and Ukraine-Russia peace talks will remain quite central. Still, EUR/USD should mostly be stirred by news coming from the US. As a secondary driver, ECB members are starting to deliver their post-meeting remarks. Yesterday, hawk Joachim Nagel said the ECB is not moving on "autopilot" on cuts and it is hard to speculate on April's move. We'll hear from dovish-leaning Olli Rehn today and a plethora of other Governing Council members later this week.

We retain a preference for lower EUR/USD, but we may not be at the peak just yet as US domestic risks linger and the euro's fundamentals have improved. An exploration above 1.090 may be on the cards, but 1.070 remains the most reasonable target for a month ahead, in our view.

Francesco Pesole

SEK: Some dovish risks after hawkish repricing

The Riksbank's Executive Board testifies before parliament this morning, and that can bring about some market-moving headlines. Markets have heavily shifted on the hawkish side of the spectrum and now expect the Bank to be done with easing.

A key driver of this shift was the set of hot inflation figures for February, but we suspect markets may be underestimating both the volatility of CPI data and the impact of US tariffs. The risks are skewed to the dovish side – and to the downside for SEK – ahead of today's parliamentary testimony.

EUR/SEK remains incidentally quite cheap in short-term valuation terms and signs of instability in EU sentiment can trigger a rebound above 11.0 this week. We still favour a stabilisation in the

11.0-11.20 range in the next two quarters.

Francesco Pesole

CEE: Inflation numbers in Hungary and the Czech Republic

This week's batch of inflation numbers for February from the region starts today with Hungary and the Czech Republic. The former should see some decline from 5.5% to 5.3%, in line with market expectations, while core inflation should rise from 5.8% to 6.2%. However, the last two prints have surprised to the upside and local speculation points to a higher number today as well, creating some upside risk in headline inflation due to food prices being the main focus of attention for the government and the central bank. Regardless of the outcome, our baseline for the National Bank of Hungary is no rate cuts this year, but we can still expect strong market attention.

In the Czech Republic, the final estimate will be released after the flash estimate fell from 2.8% to 2.7% year-on-year last week. The breakdown should show roughly stable or only slightly weaker core inflation and the Czech National Bank will release a comment later today. The CNB March meeting is scheduled for the end of the month and we expect another pause in the cutting cycle. In the baseline scenario, we expect a rate cut in May and August with the terminal rate at 3.25%. However, the current inflation and geopolitical developments point to hawkish risk in our view and the May rate cut could be the last one.

Despite yesterday's sell-off in CEE FX, we remain bullish. As we discussed yesterday and last week, outperforming CEE rates are starting to negatively pass through into FX due to tighter rate differentials. And some long positioning from previous days is also playing against the Polish zloty and Hungarian forint. However, hawkish central bank guidance across the board and positive sentiment coming out of Germany and the promise of some progress in Ukraine negotiations should be positive overall for the region's currencies, especially the zloty and Czech koruna, in our view.

Frantisek Taborsky

Author

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer