

FX Daily: Tech and tariff rollercoaster

Equity market futures are tentatively testing stability this morning, but DeepSeek's knock-on effect on US tech valuations may be longer-lasting. The dollar proved inefficient as a haven in the equity selloff, but the Treasury's plans for universal tariffs and Trump's comments may have put a new solid floor below the greenback



Source: istock

USD: Protectionism fears revamped

This was meant to be a week for FX to reconnect with central bank events after a Trump-dominated start to the year. So far, it's proven to be quite the opposite. The announcement by Chinese startup DeepSeek of a more affordable AI model to rival US tech giants has shaken highly valued US tech equities and sent global stocks tumbling. [Here are our initial impressions](#) of DeepSeek's threat to the US AI dominance and its implications for the broader market.

What appeared clear is that the dollar did not act as efficiently as a safe haven in an equity selloff, as markets focused on the potential wealth effect on US consumers and increased dovish bets on the Fed. So, while the usual risk-sensitive currencies like AUD, NZD, NOK and CAD came under pressure from the souring sentiment, it's the canonical low-yielders JPY and CHF that acted as preferred safe haven channels rather than the dollar.

However, the dollar snapped back higher across the board late yesterday as Trump revamped the relatively dormant theme of universal tariffs. The [FT first reported](#) that new Treasury Secretary Scott Bessent is pushing for a gradual rise in universal tariffs starting from 2.5%, and potentially up to 20%. Trump later said that he wants “much bigger” tariffs than 2.5% and is considering targeted duties on products like steel, copper and semiconductors.

These comments contradict the markets' tentatively sanguine assumption that tariffs would be more of a case-by-case measure (like for Colombia) and not universal. Probably, the fact that these plans are being actively laid out by the Treasury and not simply hinted at by Trump means the additional risk premium gap now embedded into dollar crosses may prove harder to close.

Equity futures point to some potential stabilisation today, although the risk of further valuation-led repricing in US tech stocks remains material. Even if the dollar is not the preferred haven in those equity selloffs, tariffs are a bigger and longer-term concern for the broader FX sphere, and the perceived inflationary effect of protectionism already seems to be offsetting the equity-led dovish repricing in Fed expectations. Unless the [Fed](#) offers hints that it's keeping a close eye on equity volatility tomorrow, there is too little on the macro side to suggest a dovish tilt and the dollar can find additional support.

Francesco Pesole

⬇️ EUR: Risk premium can widen from here

We have published the [ECB cheat sheet](#) where we look at four potential scenarios ahead of Thursday's policy announcement. Our view is that the shake-up in equity markets and resurging tariff risk are going to be much more relevant for EUR/USD compared to the widely anticipated 25bp cut and quite likely reiteration of a dovish-leaning guidance.

As discussed in the USD section, the tariff threat may be perceived more seriously given the Treasury's active planning, and that materially shrinks the upside potential for the euro. Indeed, outside of a positioning-fuelled USD correction on the back of declining fears of global tariffs, the euro continues to lack any clear domestic bullish driver, as we expect a dovish ECB to confirm this week.

Our high-frequency fair value model now shows EUR/USD undervaluation (i.e. tariff-related risk premium) having widened from 1% to 1.8% since yesterday morning. That undervaluation peaked at 3.0% in early January, meaning an additional 1%+ drop in EUR/USD regardless of any rates, equity or commodity could be warranted if markets proceed to price in a greater tariff risk.

We think the short-term balance of risks has shifted back to the downside for EUR/USD following tariff-related news overnight and a return below 1.040 is warranted at this stage.

Francesco Pesole

➡️ JPY: Don't get discouraged about the yen

USD/JPY has been on a rollercoaster ride since the start of the week. The initial reaction to the tech-led equity selloff was a perfect recipe for a JPY rally: risk-off, declining USD rates. The Bank of Japan rate hike on Friday and a still unbalanced positioning were perhaps providing an extra incentive to JPY bulls.

The exploration below 154.0 did not last long though, and the broader dollar rebound – which accelerated as universal tariffs retook centre stage – has taken USD/JPY back to the 155.50-156.0 area. This is again a testament to the perceived correlation between US protectionism and a more hawkish Fed, which has large repercussions on the rate-sensitive JPY.

Still, there are some positive takeaways for the yen from yesterday's price action. As detailed in the USD section above, the dollar is not attractive as a safe haven in an equity selloff. As US sentiment may sour further from the combined impact of AI stocks revaluation, higher for longer Fed rates and risks related to US protectionism, there should be more opportunities for the yen to outperform, especially in the crosses. We also see risks to the upside for JPY rates as we think markets underestimate the BoJ rate hiking cycle by some 25-30bp.

If another rise in US yields keeps encouraging USD/JPY buyers below 155.0, EUR/JPY is probably looking at some downside potential, with a retesting of 160.0 in the near term a tangible possibility.

Francesco Pesole

HUF: Cautious tone as a reason to rally

The National Bank of Hungary is scheduled to meet today, but this should be a copy-and-paste of previous meetings. FX has seen significant relief in the last two weeks, but inflation did surprise to the upside in December. In line with expectations, [our economists](#) expect rates to remain unchanged at 6.50% today with the same tone as last time.

In markets, we will be watching EUR/HUF and the spillover to the fixed-income market today. The currency pair has dropped below 410 over the last two days, the lowest this year, allowing for some rally in fixed income as well. If the NBH repeats its previously cautious tone, which is our baseline view, this should be confirmation for EUR/HUF to stabilise and potentially test lower levels. This we believe is a condition for HUF assets to rally as well.

Even though the very front-end curves will not see much dovishness anytime soon, we believe the belly and long-end rates and bond curves are mispriced and should be lower. The medium-term picture for HUF, however, is not positive for us. The central bank will return to a dovish tone at some point this year and EUR/USD will be lower, again pushing EUR/HUF higher. Thus, we expect EUR/HUF at 420 at the end of the quarter or later, depending on the global story.

Frantisek Taborsky

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

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

chris.turner@ing.com

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