

FX Daily: UK markets demo sticky inflation playbook

Above-expected UK inflation yesterday demonstrated how financial markets can react to an upside inflation surprise. That will serve as a warning to global markets this quarter and will probably keep \$/Majors rangebound. For today, look out for an array of central bank speakers, minutes of the ECB December meeting, and the US weekly jobs data



➔ USD: 13 February is shaping up to be a big day for markets

Yesterday's release of [above-expected UK inflation](#) has demonstrated how financial markets can react to a sticky inflation scenario. Understandably it saw investors rein in their expectations of Bank of England easing. Looking at the UK Sonia short-term interest rate curve, it was the March 2025 contract that spiked the most (+27bp) closely followed by the December 2024 contract. The UK sovereign bond curve rose by roughly 20/21bp and marginally bear flattened. The benchmark FTSE 100 equity index was off 1.5%, with the interest-rate sensitive real estate sector off 3.5%. And sterling was modestly firmer - typically bearish flattening is positive for G10 currencies.

We mention all this because investors will be wary that the US could suffer something similar this

quarter - or at least will want inflation event risks to pass before deploying their capital further this year. The gifts that keep on giving - the speeches of the Fed's Christopher Waller - tell us that 13 February is going to be a big day for financial markets. Not only is it the release of the US January CPI figure but also of the annual 2023 benchmark inflation revisions. Christopher Waller made a point of highlighting these revisions in a [recent speech](#). Investors will probably want to wait for this release before, for example, looking to rebuild short dollar and long risk positions.

Back to the short term, today sees slightly more settled market conditions, and on the US calendar are housing starts and initial claims - probably not market movers. Speaking on the economic outlook today is the Fed's Raphael Bostic - a centrist. In terms of price action, dollar bulls will probably be rather disappointed that DXY is not trading closer to 104 than 103 - given higher US rates and the strong US retail sales data [released yesterday](#). We are bearish on the dollar this year, but as we discussed in our recent [FX Talking](#), patience is required. That can probably mean DXY does trade in a 103-104 range in the near term and potentially even into further event risks this month of the US quarterly refunding announcement (29 January) and the FOMC meeting (31 January)

Chris Turner

➔ EUR: December ECB minutes the highlight today

As above, we thought EUR/USD should be trading closer to 1.08 than 1.09 on yesterday's set of data and market developments. Probably worth mentioning is that developments in the Middle East have not yet been hitting the euro since energy markets (both crude oil and natural gas) remain subdued.

For today, the highlight will be the release of the European Central Bank minutes at 13:30 CET and President Christine Lagarde speaking on a panel at 16:15 CET. Her message yesterday was a little mixed. Like other ECB members, she presented a view that aggressive market pricing of the ECB easing cycle was self-defeating - i.e. if the market softened financial conditions too much the ECB would not cut rates. But then she said the ECB would cut rates in the summer. We doubt the ECB minutes will shed too much light on this dilemma and please see Carsten Brzeski's preview for next week's ECB meeting [here](#).

EUR/USD may well trade in a tight 1.0880-1.0950 range today, but given the above event risks, we see no reason to change our current forecast of 1.08 for the end of 1Q.

Chris Turner

⬆️ GBP: BoE repricing gives sterling a lift

Investors took about 20bp out of the 2024 Bank of England easing cycle yesterday. That move supported sterling across the board and especially against a cross rate we highlighted yesterday, GBP/CHF - more on the Swiss franc below. We have been mentioning it in some of our [publications recently](#), but it looks like we will probably have to cut our EUR/GBP forecasts soon. Our current forecasts of a move up to 0.88 later this quarter and 0.90 later this year look too aggressive.

The inflation data also helped GBP/USD hold support at 1.2600 yesterday and 1.26-1.28 looks a likely near-term range until the broader dollar trend resolves itself.

Chris Turner

📌 CHF: SNB gets involved

EUR/CHF is moving higher. This is in contrast to a typical move one might see during periods of geopolitical stress. What is driving EUR/CHF now, however, and what drove it sharply lower late last year is rate differentials between the eurozone and Switzerland. These differentials had a sharp move in favour of EUR/CHF yesterday after the Swiss National Bank President Thomas Jordan said that strength in the Swiss franc was having a material impact on the Swiss inflation outlook - i.e. depressing it. This can be seen with the [sharp rise in the real trade-weighted Swiss franc](#). In effect, while the ECB might be pushing back against easing expectations, the SNB is pushing in favour of those easing expectations given the franc is too strong.

We think EUR/CHF can trade back up to the 0.96 area over the next three months as ECB easing expectations are further reined in. We would also expect another dose of the same dovish commentary from SNB's Jordan when he speaks at 11:30 CET today in Davos.

Chris Turner

Author

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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.