

## FX Daily: US CPI not a game-changer in FX

We expect a consensus 0.3% MoM core inflation reading in the US today. We see the rise in the USD/JPY as an indication that fast money is probably positioned for a stronger figure, meaning there are some downside risks for USD today even if the CPI meets consensus. Ultimately, though, we don't expect today's CPI release to leave very long-lasting marks on FX



### 📉 USD: Some downside risks even if we see a consensus print

The FX market is looking for the next big input to dollar/risk sentiment in the US CPI report this afternoon. The most remarkable move in the G10 space amid generally muted volatility this week has been another selloff in the yen, which has now dropped around 3% since the start of the year. Indeed, the latest Japanese data has given further reason to doubt that the Bank of Japan will move anytime soon on policy, as Tokyo CPI came in slightly below expectations and wage growth contracted sharply. However, we also see the USD/JPY rally to the 145/146 range as evidence that fast money is gearing up for a stronger-than-expected CPI print today, which would argue against the market's dovish expectations on Federal Reserve easing. The correction in DXY yesterday appears linked to some rebound in equities and, potentially, comments by the Fed's John Williams not being as hawkish as feared. We'll hear from Loretta Mester and Thomas Barkin today.

Our US economist agrees that rate cuts in March and April are too optimistic, but that conclusion could be reached even with a consensus CPI reading today. Core inflation is expected to come in at 0.3% MoM, and while supply chain bottlenecks continue to ease and energy prices fall, overall pricing pressures remain relatively strong. The NFIB prices survey did not indicate any further moderation in pricing power; instead, surveys suggest that consumer spending remained strong in the last two months of 2023, with retailers depleting their inventory.

While we may not see a big jump in the dollar on a consensus CPI print (actually there are some downside risks given part of the market is possibly positioned for a strong number), we suspect the combination of only modest core inflation declines and lingering labour tightness will prompt the Fed to push back on rate cuts more forcefully. That is a dollar-positive development, on paper, but a market seemingly anxious not to miss out on the next big USD lower may impatiently sell dollar rallies. That is one of the reasons why our expectations for a short-term dollar rebound are modest: a clearer narrative that rate cuts before May are unlikely needs to take over before dollar bears can be discouraged.

*Francesco Pesole*

## EUR: Schnabel helps the euro

European Central Bank member Isabel Schnabel delivered a hawkish counteroffensive yesterday after a slew of dovish comments from other ECB members. Schnabel participated in a Q&A via the ECB's X account and clearly stated that "it is too early to discuss rate cuts" and "additional data confirming the disinflationary process" will be required to move from restrictive monetary policy. This tells us that there is nothing close to a consensus among policymakers on the direction of policy and that the current narrative from the hawks should remain one of pushing back against rate cut bets.

The euro traded on the strong side after Schnabel's comments, probably since her December remarks had suggested she might have turned more dovish. Any impact on the euro shouldn't be very long lasting, especially considering the polarising US CPI risk event today. The ECB's Boris Vujcic speaks today amid a quiet eurozone calendar. EUR/USD may stabilise around current levels unless US CPI surprises on the upside (not our base case), although the near-term view for the pair is for rangebound trading.

*Francesco Pesole*

## CZK: Last big inflation number

In the Czech Republic, inflation numbers for December will be released today, which should be the last big number before the January drop. We expect 0.0% MoM and 7.3% YoY, the same as November, which is in line with the market. Core inflation would thus fall from 3.9% to 3.7% YoY, according to our estimates. The main upward drivers here are food prices. Otherwise, other items are stable or falling. Fuel prices, in particular, fell massively in December, where the drop in oil prices has been most pronounced. The risk here is housing prices, including energy prices, which showed a surprise increase in November. The Czech National Bank expects 7.0% for headline inflation and 3.6% for core inflation in its November forecast. Thus, our estimates would imply inflation slightly above the CNB forecast despite previous numbers below the central bank forecast.

EUR/CZK appears to have peaked at 24.700 last week and we turned positive on the koruna on Monday. Since then, it has held in the 24.500-600 range. And if inflation is above the CNB forecast, we think that could give the CZK a boost to further gains. Rates at the short end of the IRS curve failed to bounce last week and remain on the dovish side. However, the market is pricing in 300bp of rate cuts from the CNB for this year with 3.75% at year-end. This is a bit more than we expect but comfortably within the range of possible scenarios. Thus, we are fine with the current pricing on the short and belly of the curve. However, the problem we see here is more the positioning of a market that has been going one way for some time. Thus, a higher inflation number than the CNB forecast could raise concerns and prompt a slight upward correction in rates, supporting a stronger CZK.

*Frantisek Taborsky*

## **PLN: Hawkish NBP outcome supports zloty**

Yesterday's [National Bank of Poland press conference](#) produced a hawkish outcome with the short end of the IRS curve up significantly at the end of the day. Even so, the markets are still pricing in more rate cuts currently than our economists expect, who see room for only small rate cuts later this year. We'll see where the dust settles after yesterday's press conference, but the initial reaction is clearly positive for the zloty, which has suffered in recent days. Thus, PLN is now the only currency in the CEE region supported by higher rates. On the other hand, heavy long positioning in the FX market, which we mentioned earlier, will be a problem for bigger gains. For now, we expect EUR/PLN to settle below 4.340 and we'll see how much the market takes back the dovish bets built in the last few days.

*Frantisek Taborsky*

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