

FX Daily: US data does the talking

Expectations of the first Federal Reserve rate cut in March continue to fade as US data comes in on the strong side. Our bias is that the message from today's FOMC meeting is also one of patience and the dollar can stay bid. In contrast, soft January CPI releases from Germany and France today could fan fears of an April ECB rate cut and keep the euro on the soft side



USD: Fed should be in no hurry to cut

In our [Fed preview](#), we felt the central message coming across from tonight's FOMC meeting would be that imminent action was not on the table. A recent speech by the Fed's [Christopher Waller](#) has helped set the context for today's meeting. While acknowledging that inflation and the labour market were moving in the right direction, he said that the Fed needed to see that improvements in inflation were not revised away (2023 annual benchmark revisions on 9 February) and that when the Fed did think it was ready to cut rates it would not 'move as quickly or as rapidly' as in the past.

Given US data releases – most recently the December JOLTS data showing job openings expanding – there seems little reason for tonight's FOMC communication to push the market to price any more than the current 130bp of rate cuts for this year. This should be a neutral/positive

development for the dollar. Today also sees the US Quarterly Refunding announcement, which could prompt some volatility at the long end of the Treasury market. Should the US Treasury have misread the market's demand for longer-dated Treasury supply, higher bond yields could hit high-flying tech stocks and conversely see the dollar do well as high beta FX gets hit.

Expect DXY to trade towards the upper end of a 103-104 range.

Chris Turner

📉 EUR: 1.06-1.12 EUR/USD range priced for first quarter 2024

Implied volatilities in the FX options market attach a 71% probability to EUR/USD ending the first quarter within a 1.06-1.12 range. That feels quite wide given the current lethargy in the FX market. We have an end-quarter target of 1.08.

Back to the shorter term, EUR/USD got a lift off the 1.0800 area after eurozone GDP data was not quite as bad as expected. Southern Europe bailed the eurozone bloc out with some impressive growth in the likes of Spain and Italy. Spanish January inflation also bucked expectations, where headline year-on-year CPI edged higher and core – at 3.6% year-on-year – was well above the 3.3% consensus. That brings us to today's key releases, which are the French and German CPI releases for January. We think these will come in lower on base effects and keep the door open for an April ECB rate cut. That is not our house view, but does mean that EUR/USD should end the week heading into Friday's US jobs data on the soft side. Our baseline view favours EUR/USD testing the lower end of the 1.0800-1.0875 range ahead of the FOMC.

Chris Turner

➡ CEE: Politics and rate cuts in headlines

The GDP number in Poland for the full year 2023 will be released today, which should show us the fourth quarter as well. We expect moderate growth of 0.4% and a further recovery this year, with expected growth of 3.0%. Otherwise, the calendar in the CEE region does not have much to offer. However, there are still a few stories around in the region this week.

In Poland, we are still waiting for the president to sign the government's new budget proposal for this year. Yesterday, the prime minister raised the topic of early elections if the president blocks the budget. However, we see this more as political rhetoric rather than a real possibility at the moment. In the Czech Republic, we are two days away from the start of the blackout period ahead of next week's Czech National Bank (CNB) meeting. We have already heard some statements from the board with more to come today or tomorrow. However, for now, it seems that the CNB will stay on the cautious side and cut rates again by only 25bp. In Hungary, the EU budget negotiations continue ahead of the EU summit tomorrow. Yesterday we saw some headlines regarding the search for a deal but for now, we are not there. Although the situation is quite unclear, we expect a deal to be reached before the EU summit.

The FX market rallied strongly across the board yesterday driven by the HUF and the National Bank of Hungary's rate decision. However, the market seems to have reversed some losses from previous days and flipped positioning. As we do not see any improvement in fundamentals behind this, we do not expect the rally to continue at the pace we saw yesterday, especially in the CZK market. PLN, on the other hand, still has room to go lower towards 4.340 EUR/PLN as we discussed

earlier. Higher market rates or at least an improving interest rate differential here versus the EUR market, in our view, leave room for a stronger zloty, unless political headlines turn negative.

Frantisek Taborsky

📈 HUF: Better to stay on the safe side

The National Bank of Hungary surprisingly cut rates by only 75bp yesterday, below the 100bp expectation. The pace of rate cuts thus remains unchanged from the December meeting. The takeaways from the press conference are that the central bank opted for a more cautious path due to higher volatility in the FX market in recent days. Looking ahead, the possibility of a 100bp rate cut later remains on the table but of course, will depend on the level of FX and macro numbers coming out of the economy. HUF reacted with a strong 0.75% strengthening yesterday, however, the first reaction of the rates market is more in the direction of lower rates surprisingly. On the other hand, the market has sold off quite significantly in the last two weeks and positioning has thus probably cleared in this direction. Thus, if we see positive progress on the Hungarian-EU negotiations ahead of tomorrow's EU summit, we believe this will be a signal for the market to start buying HUF assets again.

FX-wise though, the situation is a bit tricky given that the market may start pricing in rate cuts again and undermine HUF support. Today, the forint can probably still benefit from yesterday's surprise central bank decision. For the days ahead though, we want to see the direction of the rates market first, which may be an obstacle to another HUF rally.

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