

FX Daily: US exceptionalism doubts hit the dollar

The dollar has given up all its gains for the week as soft data and US earnings seem to be casting doubts on the notion of US exceptionalism. The yen is the big winner, receiving extra help from hawkish inflation data overnight. We wouldn't chase the dollar decline much further, though



We saw a mix of triggers driving yesterday's dollar correction

📈 USD: A major correction on souring US sentiment

FX markets moved quite hectically yesterday, with the dollar giving up its weekly gains in a round of heavy positioning readjustment. There was a mix of triggers for the dollar correction: US President Donald Trump opened up the prospect of a US-China trade deal, US data came in softer than expected, US equities underperformed again after disappointing Walmart earnings, and the US curve flattened on the back of Treasury Secretary Scott Bessent's recent comments.

The first of these factors – hopes of US-China trade de-escalation – is in theory the most important for FX, but in practice Trump's comments on trade are weighed more carefully now. Bessent will hold a first call with Chinese officials today. Direct communication with trading partners has so far led to some constructive comments by the new US administration, so we could easily see some more positive headlines on the topic today. But unlike the quickly drafted deals on border security

with Canada and Mexico, China's tariffs appear instrumental to longer term plans from the US to bring down the trade deficit, and trade negotiations should involve more twists and turns.

We would not chase a dollar decline purely on the back of constructive remarks on China, and markets are also probably rather reluctant too. Yesterday's move in the dollar was in our view more a function of souring domestic US sentiment. Walmart's disappointing earnings report included a more subdued tone on consumer spending, even before taking the tariff impact into account. And data is coincidentally starting to support those thinking late-2024 optimism was a blip. Yesterday, we saw the US Consumer Board Leading Index resuming its decline in January following a surprise retail sales drop for the same month.

The dollar may be playing a slightly more forward-looking role than rates at this stage; after all, the FX market has been granted more freedom to dislocate from traditional rate correlations as Trump introduced new layers of uncertainty. Short-term USD swap rates are modestly lower in the past couple of sessions, but still failing to fully embrace two cuts from the Federal Reserve this year despite the softening economic narrative. The reason is likely a hawkish Fed that sounds more worried about Trump's inflationary policy plans than growth (as per this week's minutes).

We are not in the camp of thinking US data will soften enough to back a dollar downtrend, but the bar for a negative USD reaction to data is not high, and we admit the path to dollar re-appreciation can be bumpy. Ultimately, we expect the focus to return to the tariff story, outshading both optimism about a potential Russia-Ukraine peace deal and some concerns about a rerating of US growth prospects. We therefore see mostly upside risks to the dollar from this point.

Francesco Pesole

EUR: PMIs in focus

The euro has benefitted from the unwinding of dollar longs, but remains generally unattractive in the crosses. We'll see whether some idiosyncratic euro strength can be generated today with the PMI release. Our economists aren't very hopeful of a quick turnaround in growth prospects, and markets are expecting a very mild improvement in the eurozone composite PMI from 50.2 to 50.5.

There will be special scrutiny on German figures after the ZEW survey showed more upbeat sentiment by investors ahead of the election. Also for Germany, expectations are for a very modest improvement in the PMIs.

The big event for the euro is obviously Sunday's German election. Polls currently place CDU/CSU in the lead with around 30%, followed by the far-right AfD at 20% and the outgoing SPD at 15%. Markets are not pricing in much risk related to a stronger result by the AfD, as other major parties have pledged to keep the far right out of any coalition. We could still see markets finding good value in closing EUR/USD positions at this higher level (compared to the past few weeks) ahead of the German risk event. Our view remains bearish on EUR/USD.

Francesco Pesole

JPY: Inflation endorses hawkish sentiment

The yen has had a stellar week. Along with the combined effect of softer dollar and safe-haven flows into the yen, Japanese inflation data overnight reinforced growing hawkish sentiment on the Bank of Japan. Headline CPI accelerated to 4.0% as expected in January and core was slightly

hotter than expected at 3.2%.

The OIS pricing for December is 37bp of BoJ hikes, but only 15bp by June. We expect the next 25bp move already in May followed by another in October.

We are a bit reluctant to call for another major leg lower in USD/JPY after the break below 150.0, largely on the back of our rates team bearish call on Treasuries and our expectations for a stronger dollar. However, the yen remains broadly attractive in the crosses, and we believe there is a more convincing bearish story for EUR/JPY.

Francesco Pesole

➔ CEE: More mixed trading from now on

Yesterday's data [in Poland](#) confirmed a recovery in investment and an improving outlook for the economy. The only data on the CEE calendar today is consumer confidence in the Czech Republic, which surprised to the downside in January after some improvements seen in previous months. Next week should be more interesting, headlined by the National Bank of Hungary on Tuesday. As we discuss in [our NBH preview](#), the last meeting under the current leadership should see rates being kept unchanged, but it will be interesting to see the details of the communication with higher inflation on the one hand and improved sentiment due to Ukrainian negotiations on the other.

Markets in the region saw some stabilisation yesterday after a correction of earlier gains. At the same time, in the rates space we saw a rather mixed picture – but in general we still see rates calling for slightly weaker FX from current levels. We still believe that given the unclear direction of the Ukrainian negotiations, which will go through multiple phases from now on, we will see more mixed trading. This is likely to lead to some profit taking on the positioning built in the previous weeks, especially in HUF and PLN.

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