

FX Daily: US inflation shouldn't rock the boat

The tech selloff appears to be offering the dollar some support, suggesting that a degree of safe haven value has been restored. The USD is currently cheap against most G10 currencies; however, medium term bearish sentiment may still encourage selling into rallies. Today's CPI should be in line with consensus, in our view



We're expecting US core CPI to come in at 0.3% month-on-month today

We have published our latest FX monthly update: [FX Talking: Dollar appetite erodes](#)

➔ USD: Slightly bid

Today's US CPI report is likely to have a smaller market impact than Wednesday's payrolls. The Federal Reserve has been signalling little urgency to cut again, and it's mostly the jobs market that can move the needle.

Incidentally, we don't expect surprises in January's inflation. We are aligned with consensus on a 0.3% month-on-month/2.5% year-on-year print for both headline and core CPI. That should

endorse the latest hawkish repricing in Fed expectations, which has brought the dollar further into short-term undervaluation.

That undervaluation argues – in our view – that the balance of risks is tilted to the upside in the coming days for the greenback. However, the price action of this week strongly suggests an inclination to sell the USD rallies, and we struggle to see the dollar recover substantially from here.

One slightly encouraging development for the dollar is the seemingly positive reaction to the latest round of US tech selloff, and an indication that some safe-haven value has been restored.

Francesco Pesole

➔ EUR: Lack of ECB dissent to keep rate expectations flat

The eurozone calendar includes the second print of fourth-quarter GDP, which is expected to be confirmed at 0.3% quarter-on-quarter. Market impact should be null anyway.

On the ECB side, we'll hear from Vice President Luis de Guindos. The latest comments by other members have gone under the radar, with no clear dissenting opinions to the dominating neutral stance. Incidentally, there have been very few follow-up comments on the euro's strength after the meeting. Overall, very few reasons to revise rate expectations, and this should remain the case for some time.

The short-term fair value of EUR/USD has dropped to 1.165 after the latest hawkish repricing in the USD curve, meaning the overvaluation gap has now widened too. In line with our USD view above, we are reluctant to see that gap being filled entirely, even if some downside risks for the pair remain.

Francesco Pesole

⬆️ NOK: Lifted by domestic rates this week

The Norwegian krone had a very strong week before the equity selloff caused a partial correction yesterday. The big jump in Norwegian CPI (January data, released on Tuesday) has prompted markets to price out any rate cut by Norges Bank this year. We think this is a premature move. Inflation has proven to be rather volatile, and if the next months see a return to 3.0%, a rate cut this summer should become the baseline again.

But from an FX perspective, it is tricky to turn against NOK's strength just yet. Unlike the rather cheap EUR/SEK, our short-term valuation model says that EUR/NOK is at fair value thanks to the hawkish repricing of the NOK curve. This means that a dovish event is now needed to really dent NOK's momentum. That might need to wait until new CPI data is released next month.

Until then, if risk sentiment stabilises, NOK can find more support on the attractive rate profile. We continue to prefer NOK over SEK in the near term.

Francesco Pesole



CEE: Testing the pulse for further rate cuts

After yesterday's lower-than-expected inflation in Hungary opened the door for National Bank of Hungary rate cuts at the next meeting in February, and the Central Bank of Turkey's inflation report indicated that rate cuts are still on the table, today's attention will shift to Poland and the Czech Republic.

In Poland, January inflation will be published, where we expect a further decline from 2.4% to 1.9% YoY, in line with market expectations. However, Polish inflation has shown the most downward surprises in the CEE region in recent months, which naturally creates downside risk today as well. After recent comments from the National Bank of Poland council, it seems that the March rate cut to 3.75% is a done deal unless we see a significant upward surprise in today's inflation.

In the Czech Republic, we will see the breakdown of January inflation, which could indicate the strength of inflation in sensitive parts of the basket. Perhaps more attention will be paid to the Czech National Bank minutes. The central bank left rates unchanged last week at 3.50%, but indicated openness to discussing rate cuts at future meetings if core inflation slows. The minutes could show further details and support dovish pricing in the market, after the market overreacted to the January inflation print and discounted some rate cuts, in our view.

EUR/HUF's upward movement quickly faded following yesterday's weaker inflation, and we believe this will remain the narrative until the elections, where the market takes every opportunity to take new long HUF positions. In two weeks, the beginning of rate cuts by the NBH may be a test, but given the dovish market pricing, we do not expect much pressure on the forint. EUR/CZK rebounded slightly higher after the market returned to pricing rate cuts, and today's minutes could reinforce this narrative and give EUR/CZK further upside to 24.300.

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