

## FX Daily: US pessimism softens ahead of a busy week

Markets' concerns about the US growth picture seemed to have eased, paving the way for a modest recovery in the dollar. Next week could, however, see a larger upside USD correction as the FOMC appears to have more room to surprise on the hawkish side compared to the ECB. Elsewhere, SEK is benefitting from good eurozone data, but domestic figures have lagged



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### ➔ USD: Gearing up for an upside correction?

The year started quite poorly for the US growth story, but the past couple of weeks have – at least – not given reasons to be even more pessimistic. Yesterday, growth figures in the US were slightly above consensus, and durable goods orders came in strong. We recommend reading our [US economist's note](#) on those releases though, as a deeper look tells a different story than what the headline figures suggest.

The week ends with December data on personal income and spending, as well as the PCE deflator, which are all expected to have decelerated.

The dollar did find some support yesterday after markets read US data as encouraging, and should enter a week packed with less bearish momentum. There is probably more room for the FOMC to surprise on the hawkish side compared to the ECB next week, and we could see an upside correction in the dollar materialise. For today, we can expect some consolidation around 102.00 in DXY.

*Francesco Pesole*

## ➔ EUR: Still counting on the 1.0850 floor

We have highlighted over the past few days how levels around 1.0850 in EUR/USD seemed to have formed a buy-the-dip floor for the pair. Yesterday's price action added evidence that this is indeed the case, and we may have to wait for some more sizeable downshifting in USD bearishness in the run-in or after the FOMC meeting next week to witness a decisive break to the downside in EUR/USD.

There are no market-moving data releases in the eurozone today, and some focus may only be on Spanish growth numbers this morning.

Our economics teams published the [ECB preview](#) yesterday. A 50bp hike next week looks like a done deal, and we expect President Christine Lagarde to maintain a hawkish tone and push back against rate cut speculation. The recent communication hiccups however suggest the impact on the euro may not be too pronounced.

*Francesco Pesole*

## ⬇️ SEK: Dealing with softer domestic data

Sweden's jobs and retail sales were released this morning and came in on the weak side. Unemployment ticked higher to 7.5% and retail sales were down 8% year-on-year in January. Earlier this week, the Economic Tendency index had pointed to a deterioration in the growth picture at the start of the year (while surveys in the eurozone were quite upbeat), although consumer confidence rebounded.

SEK has not experienced much weakness as the data flow seemed to deteriorate, even though markets are no longer fully pricing in a 50bp hike by the Riksbank at the 9 February meeting. The solid growth story in the eurozone is probably offsetting the repricing lower in rate expectations.

We recently published a [scenario analysis for EUR/SEK in 2023](#). Our core view is that a gradual descent towards 10.50 will materialise by the third quarter.

*Francesco Pesole*

## ➔ HUF: Rating decision will determine the future path of the forint

The calendar in the CEE region is empty for Friday and it will be more interesting after the end of trading today. In Hungary, S&P will publish a rating review that will have the market's attention more than usual. A week ago, Fitch – surprisingly for us – downgraded the rating outlook from stable to negative, which highlights the question of whether Hungary has made sufficient progress

in negotiations with the European Union for rating agencies. It is the slower absorption of EU funds that seems to have been the main reason for Fitch's decision. S&P has already held a negative outlook since last August and it was the inflow of EU funds that was the main risk of the latest review.

Moreover, we expect S&P's new forecast to be revised to the downside in both GDP growth and the fiscal outlook. While we see downgrade risks high, our base case is for an unchanged rating today. With Fitch's recent decision, we think today's review will attract a lot of market attention and will be key for the future development of the forint. Given the heavy long positioning, we can expect an asymmetric reaction in the 385-395 EUR/HUF range.

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