

## FX Daily: USD weakness back on track

The US dollar rebound proved to be short-lived, sterling is up as negative rates are downplayed, and the euro shrugs off rising political uncertainty in Italy



### ⬇️ USD: The duration of the USD rebound proved limited

As has been the case in prior months, the duration of the USD rebound proved rather limited and we currently observe renewed across-the-board USD weakness. While expectations of US growth outperformance vs the eurozone may put a question mark over the bearish USD story, as long as the Fed sticks to its Average Inflation Targeting framework, allows for the CPI overshoot and keeps rates on hold (our base case for this year and next), the deeply negative real rate will weigh on USD. On the US data front, we expect December headline CPI to stay at 1.2% year-on-year today but more meaningful acceleration is expected from the second quarter onwards.

### ➡️ EUR: Watching Italian politics

In Italy, the recent newsflow suggests that the junior coalition partner led by former Prime Minister Matteo Renzi is set to leave the government, with the resignation letters of his ministers possibly coming this afternoon. [As Paolo Pizolli discusses](#), the risk of a government crisis is rapidly increasing. Heightened political uncertainty here has had little impact on the euro in recent days, and we estimate no risk premium has been built in (EUR/USD is trading around its short term fair value, based on our estimates), with EUR/CHF also not experiencing a meaningful downward

pressure.

## 📈 GBP: Reducing downside risks

Sterling got a boost from Bank of England Governor Andrew Bailey's comments that downplayed the odds of negative rates. This is in line with our view that the BoE is unlikely to cut rates into negative territory (due to the issue of bank profitability as well as the expected economic recovery from 2Q21 onwards), and coupled with faster vaccination in the UK than in the EU, we expect EUR/GBP to grind lower to our target level of 0.8800. We look for more pronounced GBP upside vs USD as the cross will benefit from the rising EUR/USD – we forecast GBP/USD 1.48 by end 2021.

## 📈 PLN: No easing expected today

The focus is on the National Bank of Poland meeting today and despite recent central bankers' comments, our economists see a rate cut in January as far from certain. Chairman Adam Glapiński suggested that further easing may be contingent on a third pandemic wave, which is unlikely before the meeting. We see scope for no more than a 10bp cut. The market will also focus on comments on the zloty within the NBP statement after the NBP FX intervention in December. In our view, FX intervention was launched to prevent PLN appreciation and support exporters but also to avoid NBP losses on FX reserves, so the central bank should be less inclined to act in the first half of this year. No rate cut today and no direct commitment to further FX intervention should be PLN positive today.

## Authors

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.