

FX Daily: Yen negatives build

A surprisingly soft fourth quarter GDP release from Japan – with exports being one of the few engines of growth – is only adding to the bearish story for the yen. For today, the focus will be on US retail sales and a variety of central bank speakers. Barring a collapse in retail sales, expect the dollar to hold onto recent gains



A weak result for Japanese GDP suggests that Tokyo policymakers may now be comfortable with a weaker yen

➔ USD: Focus switches to the US consumer

Having been lifted by stronger job numbers and then higher price figures over recent weeks, the dollar direction today will be determined by the US consumer. Consumption has been a major driver of US growth in the second half of 2023, with economists struggling to pinpoint the exact timing of when 500bp of rate hikes will slow consumption. We and the market are looking for some softening in the January retail sales figures today, but the consensus of a 0.2% month-on-month increase in the retail sales control group (from +0.8% MoM in December) hardly signals cause for alarm.

Barring a huge downside surprise in retail sales or a surge in initial jobless claims (to support the anecdotal news of rising US layoffs) we do not think the dollar has to come too much lower. Subdued cross-market volatility is keeping interest in the carry trade alive and also benefitting the high-yielding dollar. We favour DXY staying bid in a 104.50-105.00 range.

Elsewhere, Japan released some [surprisingly weak fourth quarter GDP figures](#) for 2023 overnight. Even though USD/JPY has not moved much, these would seem to be yen negative in that i) it provides fewer reasons for the Bank of Japan to exit its super-loose policy settings in April, and ii) given that exports were the main engine of growth, Japanese authorities may not be averse to a weak/weaker yen after all. The 152.00 area is clearly a big resistance level for USD/JPY – a break which will have some dusting-off calls for 160. We do not think USD/JPY is particularly stable in this 150-152 area and feel that implied volatility levels are too cheap.

Chris Turner

➔ EUR: Covered bond stress has yet too resonate

It certainly has not been a major market driver, but one of the background stories in financial markets has been what falling US commercial real estate prices mean for those banks who are exposed. One German covered bond issuer has been in the news and this name was downgraded by S&P yesterday. Maureen Schuller, ING's Head of Financials Sector Strategy, discusses the covered bond market [here](#). It seems too early to talk of any systemic issue yet, but we should certainly monitor this sector as it seems 2024 will be the year that lower US commercial real estate prices hit the value of collateral.

It is hard to say that this issue has been weighing on the euro. Instead, higher US rates have been the driver of the lower EUR/USD. We cannot see a strong case for an immediate reversal higher in EUR/USD, but like our colleagues in the [Rates Strategy team](#), these relatively high levels of US rates and the dollar should present opportunities this month for corporates and investors to better position for Fed easing this summer. The market currently prices around 100bp of Fed easing this year and we struggle to see the market pricing in anything less than three Fed cuts this year.

A narrow 1.0700-1.0760 range may again be on hand today.

Chris Turner

➔ GBP: GDP data not quite as bad as it looks

The UK headlines today will centre on the UK entering a technical recession. ING's UK economist, James Smith, suggests the data is not quite as bad as it looks and the low -0.3% quarter-on-quarter decline in the fourth quarter of last year is largely down to revisions in October and November, while December actually surprised on the upside. With the UK services PMI recently heading higher, first quarter GDP for this year should be better. Understandably there will be a lot of focus on the January retail sales data tomorrow after the sharp 3.2% MoM drop in December.

However, it is fair to say that the Bank of England (and sterling) are less driven by this activity data than they are by the price data. These should be on the turn lower now and we stick by our baseline view that this 0.8500 area in EUR/GBP will be major support and that a slightly more aggressive easing cycle from the BoE than the European Central Bank will take EUR/GBP a little higher later this year. We should also keep an eye on the gilt market. There is a hint again that the UK government is committed to tax cuts but struggling to find their funding. Any gilt underperformance could weigh on sterling too.

Chris Turner

📌 CEE: January inflation prints in Poland and the Czech Republic

January inflation in Poland and the Czech Republic will be released this morning, both of which are getting a lot of market attention these days. In Poland, we expect a drop from 6.2% to 3.8% YoY, below market expectations. The reading will still be based on the 2023 basket weights and will be limited in detail. We estimate that food prices changed little versus December and headline inflation moderated due to the base effect from last January, when VAT on energy was restored.

In the Czech Republic, we expect the traditional high seasonality to push prices up by 1.9% MoM. Almost all items in the consumer basket rose. However, the main issue will be the change in energy prices, which are rising in the regulated component but falling in the market component. However, the headline YoY number should therefore fall from 6.9% to 2.7%, below the market consensus, due to the massive base effect from last year.

In both cases, we expect inflation numbers below market expectations which should bring a dovish mood to rates market and undermine FX. EUR/PLN moved up to 4.340 and failed to return to 4.320 given the reversal in rates yesterday. A dovish inflation number could reverse the rates direction even more and push EUR/PLN up again a bit more to 4.360. We have the same bearish view in the CZK market, where further bets on rate cuts should push EUR/CZK towards 25.500.

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