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FX Daily: Yen remains hard to love in the short term

We don't fully trust the dovish repricing in Bank of Japan expectations after recent central bank appointments, but upbeat risk sentiment (Nvidia earnings were strong) and soft Tokyo CPI overnight can keep JPY under pressure for a bit longer. The dollar also still faces some downside risks despite its strong rate advantage

Domestic and external factors can keep pressure on JPY in the coming days

USD: Upbeat sentiment can keep weighing on defensive FX

Strong Nvidia earnings gave extra support to the market at the end of a good day for equities yesterday. High-beta currencies had rallied into the post-market earnings release, which had no meaningful immediate impact on the currency market.

Improved sentiment has weighed on the dollar over the past 24 hours, with only the yen taking a worse beating in G10 yesterday (more in the JPY section below). Oil price moderation is also playing a role, with markets seeing no reason to price in geopolitical escalation.

Polymarket's probability of a US strike on Iran by the end of March – the most accurate driver of oil prices of late – has been stable at around 60% for a few days now. At this stage, any escalation there looks like the most plausible catalyst for a broader dollar rally, given the reassurance from Nvidia's results and the lack of major data releases.

Today's main US release is jobless claims. Initial claims are expected to rise modestly to 216k, while continuing claims are seen edging slightly lower – hardly market-moving data.

Overall, we could see some stabilisation in the dollar today, though some downside risks remain as the positive spillover from Nvidia's earnings may keep markets tilted away from defensive currencies a little longer.

Francesco Pesole

EUR: Lagarde speech today

ECB President Christine Lagarde will speak before the ECON Committee of the EU Parliament today. She recently stressed the idea of "agile" decision-making on monetary policy, but there simply isn't enough evidence for markets to price in anything other than flat rates for the rest of 2026 now.

CPI data over the coming days may also fail to move the needle significantly for rate expectations. For now, the EUR:USD short-term rate differential remains unsupportive for EUR/USD, but we haven't seen enough restoration of confidence in the dollar to call for a major leg lower from here. We still see 1.1750 as a good support level, barring a major escalation in Iran.

Francesco Pesole

JPY: In rough waters

The yen has come under pressure over the past couple of days after reports of PM Takaichi's concerns about further rate hikes and the appointment of two Bank of Japan members (Ayano Sato and Toichiro Asada) who are considered dovish. But in our view, these developments do not warrant a rethink of the BoJ's gradual policy normalisation path.

One of the two outgoing members (Noguchi) has been the most dovish voice at the BoJ, and the other (Nakagawa) has been neutral-to-dovish. Ultimately, the hawk-dove balance may not shift dramatically, and we believe economic data will remain the main decision driver. Government pressure on a central bank can be a wild card, but the obvious risks to the yen should markets price in loss of BoJ independence look rather undesirable for Takaishi's government. Our BoJ call remains unchanged: a hike in June to bring rates to 1.0%. Market pricing has oscillated over the past couple of days, but some hawkish comments overnight by a BoJ member have brought pricing for June back to almost 100%.

But in the short term, JPY's outlook remains clouded. Improved risk sentiment is encouraging JPY short-building even more, and we expect a slightly faster-than-expected deceleration in tomorrow's Tokyo's core CPI to 1.6%, which could keep markets tempted to speculate on the dovish side.

The 157.7, 9 February high may well be tested over the coming days – and a break higher would put FX intervention risk back on the radar. Still, there's a good chance the Japanese authorities won't pull the trigger until 160.

Francesco Pesole

CEE: Forint rally continues

The regional calendar remains muted and we will not see much momentum or action today. EUR/PLN and EUR/CZK remain in the same ranges of 4.210-230 and 24.200-300. However, despite the dull environment in the CEE region, EUR/HUF broke through recent lows yesterday and is heading further down, closing at 375 yesterday, the lowest level in two and a half years.

This is due to a combination of a cautious rate cut by the NBH and market interpretation of newly published pre-election polls. We believe that the central bank, despite its cautious tone, will continue to cut rates in March after inflation in February is expected to fall further below 2.0% YoY in our forecast. At the same time, the market's interpretation of the polls may be premature. However, in both cases, we do not expect anything to change in market sentiment in the near future, and we expect the bullish market to continue, as we discussed here yesterday.

375 EUR/HUF seems like a key level and it is a question of whether anyone will want to take profit here, but as in the case of the NBH rate cut, we expect the market to take any opportunity for new forint longs.

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