FX: Demanding a concession

As the US market re-opens following the Presidents' Day holiday, US Treasury yields move back into focus

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USD: Markets to continue demanding a concession

US Treasury yields are back in focus as the US market re-opens and more UST supply enters the market via the bills and bond auctions this week. With the theme of the US twin deficit in focus (fiscal and current account deficits), there is growing risk that market participants continue demanding a concession (in the form of higher UST yields) to hold US sovereign bonds. As long as the rise in UST yields is orderly, this is likely to translate into ongoing broad-based USD weakness, while EM FX should retain support – as the (negative) higher dollar funding costs are offset by the (positive) currency effect of a weaker dollar (see Dollar Regime Change: The Prequel).

EUR: Economic data to have a limited impact on EUR

The German ZEW Index for February should remain at elevated levels, pointing to the robustness of the German economy (despite the political dramas and the new coalition agreement in Germany). With the trigger for the next idiosyncratic driver of the EUR strength largely being the ECB monetary policy stance (and its normalisation), today's ZEW numbers should not affect EUR materially.

SEK: Swedish CPI to have only a temporary effect on SEK

Swedish January inflation is in focus today. We look for largely unchanged CPI and CPIF, yet we see downside risks to the forecast (following the downside surprise to Norway Jan CPI as well as the erratic nature of the January reading). Although this suggests that the balance of risks is for higher EUR/SEK today, both inflation readings should not materially affect the Riksbank outlook for this year and next (as inflation is stabilising around the target). Hence, we only look for a modest EUR/SEK upside, bound by the 9.9500 resistance.

PLN: Solid data to add short-term support to the zloty

Our economists expect today's Polish data to present a rosy picture of the economy. The Jan industrial production is expected to accelerate to 8% YoY and Jan retail sales should be strong, too (9.2% YoY, above the market expectations of 7.3%YoY). While this should add to the latest Polish zloty strength (with EUR/PLN potentially re-testing the 4.1300 support level) we don't expect it to materially affect the central bank policy outlook as inflation pressures remain in check (given that the recent wage acceleration is offset by the rise in productivity - see MonitorING Poland). The latter suggests that the scope for PLN to obtain further and longer lasting support from re-pricing of the MPC's outlook is rather limited. The March MPC meeting should provide a cooling effect to overly hawkish expectations (such as the current close to three hikes priced in for 2019).

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