

FX: Dollar shrugs off end to US shutdown

Democrats and Republicans have agreed to end the government shutdown but the dollar's reaction has been muted



US Capitol

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USD: Dollar looking through the end of the government shutdown

The agreement to end the government shutdown (Democrats and Republicans agreed on the extension of the Deferred Action for Childhood Arrivals programme) was largely unnoticed by the dollar (due in part to it being a temporary reprieve and we may be in the same situation in three weeks time), with the currency not recording any meaningful gains either against the G10 or the EM segments. The muted dollar reaction to good news underscores its current challenging situation of being vulnerable to negatives (ie, US politics) but failing to benefit from positives (ie, market gradually pricing Fed rate hikes). With the IMF further upgrading its global growth outlook for both this and next year (up by 0.2% to 3.9% for 2018 and 2019)) and pointing to the synchronisation of global growth (one of the key assumptions of [our 2018 FX Outlook](#)), this points to a challenging year for USD and opportunities outside of the US (such as EUR).

EUR: Market won't get carried away ahead of the ECB meeting

The focus is on the Jan EZ Consumer Confidence and the German Jan ZEW Index. We expect the former to rise further, underlying the positive sentiment in the EZ and its economic recovery. However, given the upcoming ECB meeting this Thursday ([see ECB Crib Sheet](#)) and the potential cautious/dovish Draghi message, today's data is unlikely to cause the market to get carried away. Expect EUR/USD to hover around 1.2250 level today.

SEK: Riksbank not overly worried about the housing market

In Sweden, the focus turns to Riksbank Governor Stefan Ingves's hearing on Financial Stability. While the housing market and falling prices might be in focus, we expect the Governor to repeat the Riksbank's view that the current housing correction (while the macroeconomic environment is benign) reduces the risk of a more damaging fall later in the economic cycle ([see Riksbank divided and still waiting for ECB](#)). No urgent housing market concerns suggest a limited downside to SEK today.

CZK: Gov Rusnok comments in line with orderly and well behaved CZK gains

EUR/CZK continues to hover around the EUR/CZK 25.40 mark. Yesterday's comments from Czech National Bank governor Jiří Rusnok both on inflation (no enormous inflationary pressures) and the future path of interest rates (ie, at least two hikes this year, but a limited likelihood of 50bps hike and caution about dramatically increasing interest rate differentials vs. the outside world) point to a cautious and orderly CNB hiking cycle rather than an aggressive or heavily frontloaded pace of hikes. This still suggests the scope for orderly EUR/CZK downside remains in place, partly triggered by the publication of new CNB CZK forecasts next week.