

FX: Turkey's central bank to retain cautious stance

Turkey's central bank will likely keep the one-week repo rate on hold at 24% today but modest cuts are possible in the second quarter



Source: iStock

⬆️ USD: No clearly better alternative than USD for now

The dollar retains broad-based support and we don't expect anything to change ahead of the US labour market report this Friday. Within the G10 FX space, the Australian dollar has been the underperformer overnight as a weaker than expected 4Q18 GDP further increased the odds of a rate cut. In Canada, we expect the central bank to stay on hold today. Over recent months, the Bank of Canada has adopted a less hawkish tone, keeping a keen eye on the severity of any housing market downturn, trade developments between the US and China, and oil prices. If these downside risks don't materialise, we expect the BoC to hike once more this year, likely in 3Q. But today's on-hold decision should have a limited effect on the Canadian dollar.

⬇️ EUR: Staying close to 1.1300 ahead of the ECB meeting tomorrow

We expect EUR/USD to remain close to the 1.1300 level today ahead of the [ECB March meeting](#)

tomorrow and the [US labour market report](#) on Friday. Both events in our view pose modest downside risk to the cross and EUR/USD may re-test the 1.1250 level later in the week.

➔ **PLN: MPC stance to change from dovish to neutral, unlikely to help PLN much**

The National Bank of Poland is widely expected to remain on hold today. The NBP's new projections should see lower CPI, close to 2% on average in 2019 vs 3.2% before, and upgraded GDP growth (from 3.6% year-on-year to close to 4% YoY). Our economists expect the MPC stance to change from dovish to neutral due to the government fiscal stimulus stemming from pre-election spending. Still the positive effect on the zloty should be fairly limited as the curve is already flat over the two-year time horizon. Instead, further PLN upside (vs EUR) should be a function of improving eurozone data. Our top pick in the central and eastern Europe space remains the forint due to the upcoming central bank policy normalisation, with Hungarian February inflation this Friday providing another catalyst for HUF strength. We thus prefer lower PLN/HUF.

⬆️ **TRY: CBT to retain a cautious stance**

As per our [CBT Preview](#), our economists expect the Turkish central bank to keep the one-week repo rate on hold at 24% today, as the Bank continues to be cautious in signalling any rate cuts while preferring macroprudential policies for the time being. The CBT will likely maintain a tight stance until there is visible improvement in the inflation outlook to gradually restore credibility, with potential modest cuts likely in the second quarter. The signalled cautious stance should be marginally positive for Turkish lira today. However, with USD/TRY breaking through important resistance levels in recent weeks and with local elections scheduled at the end of March, the near-term TRY upside seems limited at this point.