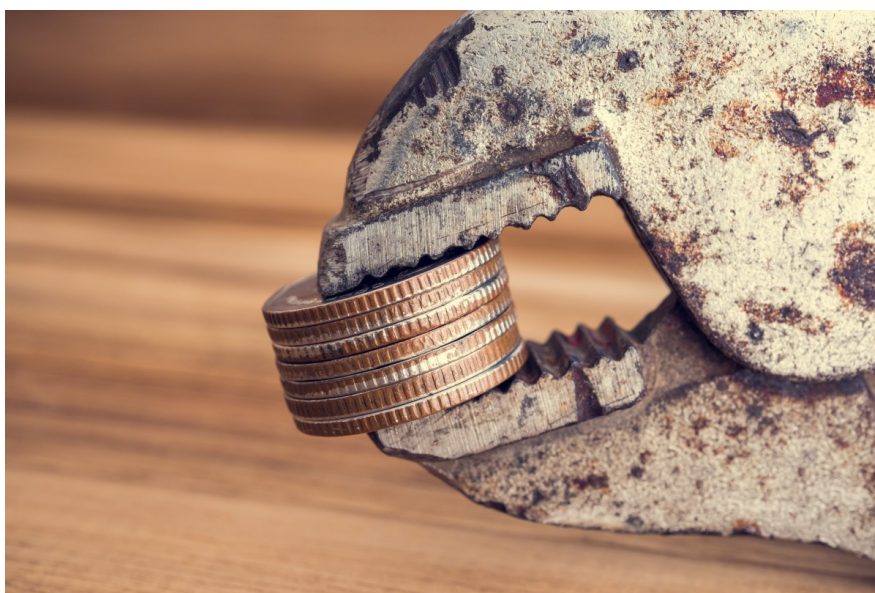


FX Daily: More CEE tightening coming through

Equity markets have found a little stability over recent days and combined with softening geopolitical tension have allowed some of the riskier currencies to perform a little better. This trend may extend a little further today, but the focus on higher inflation and how hard central bankers need to tighten will remain a central theme for FX



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⬇️ USD: Some short-lived softening

Equity markets are enjoying a short period of calm as 4Q earnings reports continue to come in. Despite the US 'tech-wreck', other sectors of the equity markets are doing quite well, with the KBW banks index for example approaching a high in the US and the Euro Stoxx banks index breaking to a new high in Europe. A more stable risk environment is allowing some recovery of the recently battered commodity currencies (e.g. the Australian dollar) and some further gains for the emerging market high yielders, such as the Brazilian real.

However, the start of major tightening cycles in both the US and Europe does not look the best time to be searching for carry (even though 11% per annum implied yields in Brazil are attractive)

and the benign environment could easily be unwound with an above consensus US January CPI reading tomorrow.

On that subject, both Brazil and Mexico release January CPI readings today (Chile has already surprised on the upside) and any further upside here will warn that rates need to stay higher for longer - damaging growth prospects further.

In the US today we will hear from Fed speakers Michelle Bowman and Loretta Mester later on. A 25bp Fed rate hike on 16 March is fully discounted as are five hikes by the end of the year. Tomorrow's US CPI release will help determine whether the Fed starts off with a 25bp move or 50bp in March.

DXY could stay offered in a 95.35-75 range today.

📈 EUR: Schnabel and EC forecasts in focus

EUR/USD continues to trade in narrow ranges and noticeably has not been hit by European Central Bank doves, such as Banque de France governor François Villeroy, saying that markets have overreacted to last week's ECB press conference.

We think there will be two event risks for the euro today. The first will be the 11CET release of the European Commission's winter forecasts. Back in November, the EC saw the eurozone growing by 4.3% and 2.4% in 2022 and 2023, respectively. More importantly, it saw eurozone inflation at 2.2% and 1.4% over the same period. The focus today will be on how aggressively it revises up its 2023 CPI forecast and what that may mean for the crucial ECB inflation forecasts released on 10 March. Any substantial revision well above 2.0% could give the euro a little lift today.

The second event risk is the Twitter Q&A from ECB's Isabel Schabel at 16CET today. She was one of the first of the ECB to publicly say that inflation risks were tilted to the upside. Similarly hawkish comments later today could help nudge EUR/USD back towards the 1.1460/80 area. EUR/USD should remain supported near 1.1400 today.

In addition to further tightening in Romania (see below), there will also be a focus on central banks in Poland and Hungary today. National Bank of Poland Governor Adam Glapinski holds a press conference at 15CET today after yesterday's [50bp rate hike](#). Expect further hawkish remarks from him (we see rates being raised to 4.50% this year from 2.75% now). Also expect further support for a stronger zloty. And it is quite rare to see a central bank, in its monetary policy release, effectively calling for a stronger currency. EUR/PLN could have a run at 4.50 today.

Also look out for the minutes of the last National Bank of Hungary (NBH) rate meeting at 14CET today - possibly providing clues as to whether the NBH will take the one-week deposit rate (4.30%) even higher tomorrow.

➡ GBP: BoE's Pill is the focus today

GBP remains well supported by hawkish Bank of England sentiment. The market fully prices a 25bp BoE hike on 17 March and a further four hikes thereafter. That pricing seems very aggressive but may not be unwound until we have seen the turn in UK CPI (which may not be until the May CPI figures are released in June). Consequently, we expect GBP to hold onto gains for the 1H22.

For today we will hear from BoE Chief Economist, Huw Pill, at 1410CET. He was one of the majority

five MPC members voting for just a 25bp hike last week. We think the BoE will welcome the role the strong pound is playing in deflecting some of the energy price surge - and see no reason for the BoE to start railing against aggressive pricing of the BoE trajectory.

In a softish dollar environment today, cable can drift back to recent highs at 1.3630.

➔ RON: NBR should deliver a 50bp hike today

After yesterday's [50bp hike in Poland](#), attention today turns to Romania. ING's Valentin Tataru thinks the National Bank of Romania (NBR) will deliver a [50bp hike in the policy rate to 2.00%](#). The NBR is more accustomed to move in 25bp increments, but in light of aggressive tightening in both Poland and the Czech Republic, we think a 50bp hike is more likely.

At its last meeting in January, the NBR did implicitly allow a 50bp tightening, by raising the policy rate 25bp, but also by widening its interest rate corridor to +/- 100bp from +/- 75bp. We can now see that playing out in RON money markets, where overnight rates are up in the 2.90/2.95% area - i.e. close to the Lombard rate ceiling of 3.00%.

Were the NBR to stick to a 25bp increment, and also just increase the Lombard rate to 3.25%, the leu could start to come under a little pressure. Valentin forecasts CPI this year in Romania at 7.5% and a perceived lack of urgency by the NBR could see EUR/RON have a brief foray to the 4.9550 area. However, the NBR has a strong track record of managing the RON and would probably use tighter liquidity management to keep EUR/RON steady under 4.95. We do not expect the NBR to allow one of its discrete adjustments lower in the RON until 4Q this year and Valentin has a [year-end EUR/RON target of 5.00](#).

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

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