

More USD:JPY upside in store

Signs that the US might reach a trade deal with China suggest more upside to stock markets and thus limited support for the yen



Source: Shutterstock

⬆️ USD: US data keeps odds of a Fed rate hike in place

The trade-weighted dollar is pushing higher, with better than expected Q4 US GDP yesterday providing support to the currency and keeping the case for an additional Fed funds rate hike later this year in place. As per [US: Proving the doubters wrong](#), our economists look for the Fed to hike in 3Q though there is no tightening priced in by the market at this point (in fact the market is pricing a cut for 2020). Eventually, rising US front end rates and a non-negative global risk environment (which in our view will be one of the prerequisites for the Fed to move) suggest that the low yielding, safe-haven Japanese yen should continue to be an underperformer in the G10 FX space – along with Swedish krona, where negative yield is making the krona less attractive vs its G10 activity peers (see [SEK: Struggling to find the silver lining](#)). Signs that the US might reach a trade deal with China (as per White House economic advisor [Larry Kudlow's comments](#) overnight) suggest more upside to stock markets and thus limited support for the yen.

⬆️ EUR: Low inflation supporting cautious ECB stance

Our economists expect the eurozone February Flash CPI to stay at 1.4% year-on-year, with core CPI remaining at 1.1%. Such unenthusiastic inflation readings should reiterate the current cautious

ECB stance as the headline CPI is below target, core prices are even lower and the uncertainty about the global trade dynamics remain. EUR/USD to continue struggling to persistently move above 1.1400.

⬇️ **GBP: Weak forward looking indicators to cap near-term GBP upside**

UK February manufacturing PMIs should decline further, reflecting the deteriorating UK economic prospects stemming from Brexit uncertainty. So far, manufacturing PMIs have been kept artificially high due to stockpiling activity. The larger focus will be on the Services PMIs next week which may slip below 50 into contractionary territory. With no imminent new news expected on the Brexit path negotiations today, we see modest downside to sterling today. EUR/GBP to test the 0.8600 level.

➡️ **CEE FX: HUF remains our top pick**

In the central and eastern European space, the February Manufacturing PMIs should again show soft Poland and Czech readings (both remaining in contractionary territory), while Hungary's PMI should remain comfortably above 50. We continue to favour the Hungarian forint in the CEE FX space and look for further HUF strength, with the next two trigger points for more HUF upside being February CPI on 8 March and the NBH meeting on 26 March (when NBH is expected to announce the start of Bubor normalisation).