

FX: Romania's central bank set to remain on hold

The National Bank of Romania is expected to keep its rates on hold later. Here's what to expect in the FX markets this Tuesday



➔ USD: Allure intact

The recent US data (ISM Manufacturing and construction numbers) don't appear to justify any imminent need for the Fed to ease, while the dovish re-pricing of central banks globally does not erode the dollar's beneficial interest rate differential. With USD offering an attractive yield within the G10 FX space as well as safe-haven characteristics, any turn in the dollar does not appear to be imminent. AUD slipped overnight as the RBA changed the wording of the statement, leaning officially towards a modest dovish bias. Still the AUD decline was rather well behaved as the market has already been pricing one cut within 6 months and another cut within the year.

➔ EUR: Range-bound EUR/USD, depreciating HUF

EZ Feb unemployment is unlikely to affect EUR much with EUR/USD to remain range bound around the 1.1200 level today. In CEE, we expect the HUF to remain the underperformer and the go-to funding currency (as was visibly the case yesterday, when the forint was the only CEE currency weakening against EUR). This is due to the concerns about NBH credibility, too low real rates and too loose monetary policy (for the level of the current account surplus deterioration to keep HUF

stable) that could lead to further EUR/HUF strength in coming months. We expect EUR/HUF to test 330 this quarter.

↓ GBP: Division remains

The UK Parliament failed to vote in favour of a Brexit alternative to PM May's deal yesterday, with the custom union option missing a majority by 3 votes. Today the focus turns to the Cabinet meeting, with rising probability of early elections. Still it is too early for early elections and Parliament is likely to vote again on the various Brexit alternatives (likely on Wed) with the original PM May deal likely coming back for a fourth vote thereafter (on Thu) either on its own or against the Parliament's preferred Brexit option. GBP price action to remain chiefly driven by evolving headline Brexit news.

→ RON: NBR on hold, EUR/RON close to the top of its short term trading range

The NBR is likely to join the dovish global central bank chorus. Liquidity management has become more relevant than the key rate from an exchange rate management perspective and due to the features of the bank levy. We expect the key rate to be on hold for this year and implied yields to stay significantly higher to deter RON depreciation. For now the NBR's new range seems to be 4.7200-4.7700 in EUR/RON, before another 2-3% shift higher likely in the second half of the year. As EUR/RON is close to the upper range and EM sentiment seems to be stabilizing, EUR/RON upside today seems limited.

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