Risk rally will leave some behind

Positive signs on the US-China trade front are giving risk assets a boost. But some will do better than others

USD: Reversal of last week's gains to continue

The US dollar is still reversing last week's gains. President Trump's comments that he is willing to extend the March 1 deadline on tariffs on Chinese exports is helping risk appetite and limits fears about escalating trade wars. On the US data front today, the focus is on US January CPI. Lower gasoline prices are likely to drag headline inflation down to just 1.5% year-on-year (from 1.9% previously). The lack of imminent inflation pressure should underscore the current cautious Federal Reserve stance and lend support to the undervalued high yielders in the emerging market space. Here, the Turkish lira is our favourite tactical long. In contrast, the upside to G10 FX low yielders (such as the euro and Japanese yen) vs the US dollar should be limited because while there are signs these currencies are oversold on a short-term basis, fundamental catalysts for gains vs the US dollar are not in place at this point. Indeed, this is evident in the price action overnight with EUR and JPY being G10 FX laggards. The less dovish than expected Rerserve Bank of New Zealand overnight lifted the New Zealand dollar. As per the RBNZ Review, while the RBNZ and Reserve Bank of Australia share a similar stance, we favour NZD (and thus lower AUD/NZD) due to a better housing market and less exposure to China.

EUR: To remain a laggard in the G10 FX space

Another very soft eurozone Industrial Production reading in December should keep the euro's upside limited today, with the currency remaining a laggard in the G10 FX space in the current soft USD environment. In the UK, January CPI should dip below 2% due to lower oil prices. Yet, given the already downbeat Bank of England outlook presented last week, lower CPI should have a limited impact on sterling, where the overriding driver remains Brexit uncertainty.

CZK: Higher CPI won't translate into more hawkish CNB at this point

Our economists look for Czech January CPI to rise again above the 2% target (to 2.1% year-on-year), due to the rise in food and core prices. Even with CPI back above the target and the Czech koruna weaker than the central bank's forecast, the implication for any imminent rate hike is limited, as global uncertainty is, at this point, the key consideration keeping the CNB cautious. CZK upside to be muted.

SEK: Positive effect on SEK from unchanged rate path to be shallow

While the Riksbank is widely expected to stay on hold today (Riksbank Preview), the Swedish krona may get a modest boost from the likely unchanged interest rate forecast which should still pencil in a hike in the second half. Yet, we note that any SEK gains should be fairly limited and temporary as the credibility of such a forward guidance is currently low given (a) the deteriorating domestic data (i.e. the PMI should move into contractionary territory in coming months); (b) the more dovish stance of central banks globally. From that perspective, EUR/SEK dips should be shallow and be seen as opportunity to re-sell SEK (and even more so against NOK).