FX: Boring Fed, Buoyant Global Markets

New Fed Chair Jerome Powell will make his debut semi-annual testimony to Congress today and will likely face stiff questions over the pace and extent of the Fed's tightening cycle

Source: Federal Reserve

USD: Boring and predictable Powell unlikely to be the saviour for a weak dollar

New Fed Chair Jerome Powell will make his debut semi-annual testimony to Congress today and is expected to face stiff questions over the pace and extent of the Fed's tightening cycle – not least in the context of recent financial market developments and the sharp stock market volatility seen earlier in the month. When it comes to Fed policy, we've often noted that the true determinant for global asset prices is not necessarily the timing of rate hikes – but the overall extent or end-point of the hiking cycle. The neutral interest rate serves as the best gauge here – if one assumes that the Fed will look to perfectly navigate the US economy to full potential, without being forced to run excessively tight policy in the face of any undue late-cycle inflation. Given that we're in the latter stages of the normalisation cycle, it is only natural that we see investors paying greater attention to the Fed's neutral interest rate. Yet, as outlined in our latest note 'The one interest rate differential that is driving the US dollar' – we do not think any optimism over a higher US neutral interest rate will translate into US dollar strength – as much of the optimism of late has been down to an upward revision in the **global** neutral interest rate. Exchange rates thrive on unpredictability and mispricings – and hence monetary policy as a driver for currencies packs more punch in economies where the gap between actual policy rates and neutral interest rates is the biggest (ie, the rest of the world).

Given that the long-run dynamics for the US economy have not altered – and in some regards deteriorated (ie, pointing to the increased US fiscal deficit) – we doubt that Fed Chair Powell will want to flip the policy script and prep markets for a more aggressive tightening path just yet. A boring and predictable Fed is thus unlikely to be the saviour for a structurally weak dollar. Today's Jan US trade data will also be of interest in the context of the US twin deficits and the dollar.

EUR: Upward impetus may fade if positive eurozone data surprises aren't sustained

With President Mario Draghi yesterday describing the ECB's future guidance on policy rates as 'very important', it's clear that officials are very wary of investors front-running the central bank's next policy moves. Only resilient eurozone data could justify any additional ECB policy exuberance being priced into short-term eurozone rates and the EUR in the near-term; however, we note that positive eurozone data surprises have been less prevalent over February (after a pretty impressive January). This partly explains the failure of EUR crosses to push higher – in particular EUR/$ failing to cement a move above 1.25. As such, short-term data remains very much in focus – with today seeing EZ consumer and business sentiment indicators and German CPI.

HUF: NBH meets today with the focus on whether the MIRS pricing is altered

The National Bank of Hungary will meet to set interest rates today and as our team highlights, the key issue for Hungarian asset markets is whether the NBH is going to react to market turmoil or whether it will keep the same fixed-rate for the MIRS tenders (which won't be announced till Thursday). Our preferred view is that the NBH will prioritise anchoring rates and won't change the price. On the FX front, we retain the view EUR/HUF will trade around 310 and that the Hungarian forint won't be hit by the influx of liquidity from the mortgage bond QE programme. The 300 level is a story for later in the year, notably when the NBH's curve flattening policies end.

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