USD: US GDP to underscore cautious Fed

We predict that the US economy grew 2% in 1Q, reinforcing the Federal Reserve's plan to stop quantitative tightening

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USD: US GDP to reiterate cautious Fed stance

The failure to reach an agreement at the US-North Korea Summit and another decline in China's PMI (see China: PMI continues to sink) suggest (a) fairly limited upside to risk assets today; and (b) underperformance of Asia FX vs the rest of the world (with the Korean won currently seen as the most vulnerable – as per the price reaction overnight). Still, we don't look for a longer lasting impact on FX markets (beyond today) as this news is not negative enough to persistently weigh on market sentiment. Later today, the focus turns to US 1Q GDP. Our economists look for a below consensus number (2.0% vs 2.3%) due to the poor trade, inventory and retail sales figures. A softer reading should reiterate the current cautious Fed stance, with Fed Chair Jay Powell noting yesterday that the central bank would soon announce a plan to stop quantitative tightening. This suggests that the downside to emerging market FX should be fairly limited today with a cautious Fed providing a (positive) offsetting factor.

EUR: Inflation not the reason for ECB to tighten

We get individual eurozone countries' February CPI releases today ahead of the flash eurozone reading tomorrow. With German inflation likely continuing to decelerate (to 1.2% year-on-year from 1.4% previously) the case for the European Central Bank to start the interest rate normalisation process remains rather weak, although there is the potential for one-off technical hikes to ease the pressure on banks, as the ECB's François Villeroy commented yesterday. EUR/USD will continue to struggle to break above 1.1400.

GBP: Looking for more catalysts

We recognise that the move in sterling is meaningful and for EUR/GBP to break below 0.8500 we need more catalysts. With the UK parliament now having the chance to stop a no-deal Brexit should Prime Minister Theresa May's Brexit deal fail to reach a parliamentary majority (by 12 March), any EUR/GBP break below 0.85 is unlikely this week.

SEK: Will Sweden avoid a technical recession?

Sweden will just about avoid a technical recession in 4Q – our QoQ 4Q18 GDP forecast is for 0.2% growth. This puts us at the bottom of the range of forecasters (consensus is 0.6%, and the Riksbank's forecast is for 0.7%). Swedish GDP data is pretty volatile though. Still, it's pretty clear that the Swedish economy is slowing, and after several years of outperforming peers in Europe, Sweden is likely to be a laggard in 2019. We continue to think that Swedish activity risks remain skewed to the downside and are happy to retain our non-consensus view of EUR/SEK rising to 10.75 over coming months.