USD: Where is the love?

Global investors have lost that lovin' feelin' for the US dollar

Source: Shutterstock

USD: Risks getting dumped on Valentine’s Day – especially if US inflation doesn’t show up for its date

The dollar has started this week pretty much where it left off before the equity market sell-off – on a fast-sliding trend, with global investors showing little love towards it. While today's US inflation report is getting touted as being key for the short-term direction of travel for global markets, we're a bit more sceptical on whether it can actually have a material impact. Even in the event of a strong US inflation print, it's difficult to make a clear-cut case for the US dollar to rally:

- While one would expect a positive US CPI surprise to prompt a similar market reaction to that seen after the strong wage growth print in the Jan US jobs report – which saw bond yields move higher, stocks lower and the dollar up across the board – one could equally argue that higher inflation is merely confirmation of a late-cycle, and slowing, US economy. For a structurally weak USD, we would argue that sentiment over the latter would far outweigh any subtle re-pricing of Fed tightening at this stage of the normalisation cycle. Moreover, higher near-term inflation – absent any fresh positive demand shocks – may bring forward the Fed's rate hike intentions, but do little to change the end-level to which rates will gravitate towards (which matters more for the $).

- Statistically, we also note that it's a pretty tall order for the US inflation data to 'positively surprise' markets today. While consensus for the headline print is +0.3% MoM, 30 of the 74 analysts polled on Bloomberg are in fact looking for a +0.4% MoM – meaning that we might need to a see a bigger print than this (say +0.5% MoM) to truly surprise markets. Given that this is unlikely, we prefer to focus on core inflation. But here we note that out of the last 20 releases – core CPI has surprised just once (check out our charts on Twitter).

The bottom line is that we think it'll be a tall order for US inflation data today to steer markets away from the USD bear trend story – and even in the event of a positive release, it remains ambiguous as to how investors would react. The latter suggests any $ gains may be quickly faded – while it's worth noting that our house view for a CPI miss could see USD/JPY extend its slide towards 105.

EUR: Loved up bulls singing 'Can't Take My Eyes Off You' to the 1.25 level

The second release of 4Q Eurozone GDP data should be a non-event given that markets are looking for no revisions to the initial 0.6% QoQ print. EUR/$ will be a function of events in the US today – a weak US CPI print could see a break above 1.24.

GBP: Could Boris's Brexit Love Song hit a bum note for transition deal odds?

Foreign Secretary Boris Johnson today kicks off a series of speeches by the UK Cabinet outlining its Brexit vision – the risk is that he may muddy the landscape further and reduce the perceived odds of a Brexit transition deal being agreed by end-March. But we note that short-term risks around key Brexit events have tended to be asymmetric – with a propensity for GBP to rebound sharply.

SEK: Any hawkish tilt at today's Riksbank meeting could send EUR/SEK to 9.85

ING's Jonas Goltermann thinks Sweden's Riksbank will adopt a wait-and-see approach for a little while longer. A non-event should see EUR/SEK stay above 9.90 today – but any subtle hawkish tilt will see a retrace back towards the 9.85-9.86 area.