FX Daily: Data giving no respite to the dollar

The week started with another US data disappointment, as softer-than-expected retail sales added to worries about a deteriorating consumer picture. Today, geopolitical developments are in focus as Trump and Putin discuss a ceasefire deal. In Germany, the spending package should be approved by the Bundestag, and the ZEW may jump on fiscal optimism

USD: Consumer pessimism still growing

US data continues to haunt the dollar, which fell against all G10 currencies excluding the yen yesterday. February retail sales rose less than expected (0.2% month-on-month versus 0.6% consensus) following a major drop in January, while the Empire Manufacturing Index plummeted to the lowest level in more than a year.

Equities had a good day despite the data disappointment but remain in a fragile spot as the US administration has hinted it might accept a recession as a necessary evil in the path to a reset in trade relationships. Incidentally, the Fed – which announces rates tomorrow – does not look like it's in a position to offer much respite to risk sentiment as rising inflation expectations still warrant caution on cuts.

There is no top-tier data likely to steer the dollar today, although some focus will be on industrial production figures for February and housing starts. Further downside risks for the dollar may stem from today's Trump-Putin phone call on Ukraine. Any progress towards Russia accepting the ceasefire plan laid out by the US and Ukraine can add extra pressure on the safe-haven dollar and yen.

DXY can continue to slip below pre-election levels and test 103.0 before the FOMC risk event today, which may end up offering some support.

Francesco Pesole

EUR: Bundestag widely expected to approve spending

The German Bundestag votes on Friedrich Merz's fiscal spending plan today. It is widely expected that Merz has secured the two-thirds qualified majority to amend the constitutional debt brake, and we think developments on a Russia-Ukraine peace deal will be more impactful on the euro.

Markets will also be closely watching the ZEW survey results, as that is the first set of sentiment indicators following the fiscal spending announcement. The index of German economic growth expectations had already accelerated in February ahead of some (more contained) expectations for fiscal support. Consensus is looking at a move from 26 to 48 in February, but we wouldn't be surprised with an even bigger number.

EUR/USD is eyeing 1.100 again. We aren't convinced there is enough thrust for a decisive break higher, especially as the Fed may fail to trigger much further repricing in the USD curve. Still, we could see the pair move above 1.0950 today.

Francesco Pesole

CAD: Important CPI release

Canada releases inflation figures for February today. The end of a sales tax holiday is expected to have driven headline CPI back above 2.0% year-on-year, but the main focus will as usual be on the trim and median core measures, which are expected to have remained below 3.0%. Any meaningful core inflation rebound in the month before US tariffs on steel and aluminium took effect can probably prompt markets to price out one of the two rate cuts currently expected.

The Bank of Canada has stressed how the policy response to the US-Canada trade war will depend on the growth-inflationary balance and hinted that it would not be doing the heavy lifting in supporting the economy if prices rise too. So, the starting point for inflation before the initial tariff impact is key, and any upside surprises today can pave the way for a move to 1.4200 in USD/CAD.

Our short-term fair value model shows that there is now a rather contained 1% risk premium left on USD/CAD, meaning that a return to the February lows would almost entirely erase the additional loonie weakness related to tariffs. We would not chase USD/CAD much lower should it touch 1.42, as April should bring fresh negative news on trade and dovish pricing on the Fed may prove overdone.

Francesco Pesole

CEE: Focus on Ukraine deal once again

Yesterday's core inflation data for Poland showed a notable decrease in February, as reflected in Friday's headline figures and a revision of CPI weights. Core inflation dropped from 4% in December to 3.7% in January, and 3.6% in February. However, an interview with a National Bank of Poland representative indicated that the central bank's view hasn't changed too much. On the other hand, our economists believe these changes will bring inflation to the central bank's target perhaps as early as the end of this year vs. 2027 in the NBP's forecast.

In the Czech Republic, yesterday's PPI numbers showed the first year-on-year decline since last February, but in the details we can see continued growth in other segments of the economy. In particular, agricultural producer prices at 9.3% YoY are in the central bank's sights. The Czech National Bank blackout period starts tomorrow and surprisingly we didn't see any interviews yesterday. So we should probably see most of the central bank's communication today ahead of next week's meeting when we expect the central bank to leave rates unchanged at 3.75%.

The CEE market on Monday produced a mixed picture. Although a rally in the rates space driven mainly by core rates should keep CEE FX rather at weaker levels, higher EUR/USD and further gains in European equity markets should indicate stronger CEE FX. As a result, the Polish zloty and Czech koruna weakened only slightly, while the Hungarian forint tested the strongest levels since last October with EUR/HUF 398. As we discussed in yesterday's outlook for this week, we believe that given the dovish PLN story, dull CZK trading and global direction HUF may outperform CEE peers this week.

Today, the focus will be on the Trump-Putin phone call and potential progress in negotiations and the peace deal, which should be positive for the entire CEE region, led by HUF. EUR/HUF could thus continue to test new lows below 398.

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