

FX Daily: Dollar recovery has more to run

We expect to see a continuation of Friday's dollar recovery this week, thanks to the still supportive Fed tightening and US growth narrative. The US data calendar is quiet and there are no Fed speakers this week, while the ECB minutes and Italian politics should attract some attention. GBP may find more support from data, still ignoring UK political noise.



⬆️ USD: Further room to recover

The week has kicked off with the release of China's 4Q GDP and new easing measures by the PBOC. While the slowdown in growth (from 4.9% to 4.0% YoY) was not as severe as expected, the PBOC's cut to the one-year medium term lending facility rate (from 2.95% to 2.85%) was deeper than consensus expectations. This is yet another strong signal that the central bank has fully embraced a pro-growth stance: in FX. This should – in theory – be a positive development for the antipodeans, which have, however, struggled to show any positive reaction this morning after a slow start to the year. Instead, it's the yen that has mostly suffered from Chinese data and the PBOC announcement this morning: we believe the JPY correction has further to go in the coming days as US treasuries may come under fresh pressure.

The dollar recovered some ground on Friday after a rough week. As discussed in our [G10 FX Week](#)

Ahead, we think there is some room for some further stabilisation/recovery in the greenback this week, thanks to a still supportive hawkish Fed and US growth narrative, now possibly paired with a more balanced positioning after the recent long squeeze. We expect DXY to rise back to the 96.00 level as we approach the 26 January Fed meeting.

Today, the data calendar is extremely quiet. For the rest of the week, we have a few US releases to keep an eye on – the University of Michigan sentiment indicator, the Empire Manufacturing index some housing figures – but nothing likely to drive major market reactions. Also, the start of the FOMC blackout period means we won't have any inputs from the Fed until next week's meeting.

↓ **EUR: Eyes on ECB minutes this week**

The EUR/USD rally stalled around the 1.1480 level last week, with the revamp of safe-haven dollar demand on Friday putting a cap on the pair. Looking ahead, we remain of the view that we have not seen the peak of the dollar yet, and the balance of risks for EUR/USD is still skewed to the downside, primarily on the back of ECB-Fed monetary policy divergence.

Apart from tomorrow's ZEW Survey in Germany, there is no market-moving data in the eurozone this week. Most focus will instead be on the minutes from the ECB December meeting, as well as speeches by Lagarde, Villeroy and Holtzmann.

In addition, it will be worth monitoring the political developments in Italy, where ongoing discussions around the candidates for the next President of the Republic (who the parliament is due to elect at the end of this month) risk affecting a BTP-Bund spread which has already widened by some 30bp since October. Expect any negative spillover in the BTP market to be mirrored in a weaker EUR/CHF.

→ **GBP: Data to help, political noise to have little impact**

The very good momentum enjoyed by the pound at the start of the year has not been dented by the recent political noise in the UK. Prime Minister Boris Johnson remains in a quite fragile position after receiving multiple calls to resign, even from within the Conservative party. Still, we think that even in the event of a change in leadership, the downside risks for the pound (which is currently being supported by aggressive Bank of England tightening expectations) should be contained.

This week, a slew of important data releases in the UK should provide some extra support to the currency – although mostly in the crosses in our view, as we expect the dollar to stay bid as well. Tomorrow's jobs data should keep drawing a quite robust picture, and Wednesday's inflation report for December should show another marginal acceleration in the headline rate. That should offset the negative impact of weaker retail sales on Friday. We continue to expect EUR/GBP to slip below 0.8300 in the near term.

→ **CAD: BoC Business Outlook survey in focus**

CAD's good performance at the start of the year has relied on the market's conviction that the recent Covid restrictions in Canada will not derail the Bank of Canada's tightening plans.

Today, all eyes will be on the BoC Business Outlook survey for 4Q. The 3Q report sent encouraging signals on the demand side, although it clearly highlighted serious supply restraints. Today's survey may not fully mirror the worsening demand outlook as data was mostly collected before

the Omicron crisis become severe. This means the survey's explanatory power may be somewhat limited, but there are still a few points to keep an eye on, such as inflation expectations (and how many firms still believe high inflation is due to temporary factors), hiring intentions and CAPEX investment figures (which had been quite strong earlier in the year).

With CAD not currently embedding much economic fallout due to Omicron, we don't see much room for CAD to benefit from the BoC survey today. Still, external factors – above all, oil prices – are proving supportive to the currency and we expect any rebound in USD/CAD to stall around the 1.2600 region this week.

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