

FX Daily: Fed's Waller speech will be key today

Asian equity markets and currencies are under a little pressure today and have cast a slightly risk-off tone across global FX markets. Economic data is light, but we do hear from some central bank speakers, the most important of which will be the Fed's Christopher Waller at 5:00 pm CET. This could be a risk-positive, dollar-negative event



Federal Reserve Board
Governor Christopher
Waller

📌 USD: Fed's Waller speech will be important for the dollar

European FX starts the day on the back foot. Asian equities are off on the back of further poor sentiment out of China. From what we can gather it seems that a new, specialised funding list for property developers announced by one of the Chinese banks has raised some doubts about a softening of credit conditions. USD/CNH has traded to 7.20 – the top of a two-month trading range – and a softer renminbi has taken Asian currencies with it. Events in the Middle East are also being cautiously monitored, although it is important to say that energy markets remain quite orderly, and European natural gas has actually dropped below EUR30/Mwh, a very welcome development for European industry.

Onto the day ahead, what catches our eye is a 5:00 pm CET speech from the Federal Reserve's Christopher Waller. Recall that he delivered the definitive and market-moving "something appears to be giving" speech in [late November](#). Back then, it concluded that the conflict between strong US growth and disinflation appeared to be resolving in the favour of disinflation. The speech provided an important lead indicator for the Fed's dovish turn at the December FOMC meeting. We presume today that he will stick to that same core message of successful disinflation and will not want to get involved in the fine-tuning of discussing a 2024 easing cycle, but not starting in March. We thus see event risk as a benign one – slightly negative for the dollar and positive for risk.

We also note an overnight story from the Wall Street Journal's Nick Timiraos that the Fed could consider slowing its Quantitative Tightening scheme – US \$60bn in US Treasuries currently rolling off the Fed's balance sheet each month – at coming meetings. It is not clear whether this could be on the agenda for the 31 January meeting, but it would also support the less hawkish stance from the Fed announced above.

DXY has clear resistance at 103.10/20 and the case we have outlined above suggests that these levels may well prove the top of the day's trading range. If we are wrong and Waller has been sent out to push back against aggressive easing expectations (markets price 18bp of a 25bp first cut in March and 158bp of easing this year) then DXY can break resistance and head to the 104.00/25 area multi-day.

Chris Turner

📈 EUR: ECB pushback underway

The euro is not exactly showing it, but we have started to see some aggressive push-back from European Central Bank hawks against the 150bp of easing expectations priced in by the markets this year. Both Joachim Nagel and Robert Holzmann warned that rate cuts are not guaranteed this year. European interest rates have barely budged on the news and are probably more interested in thoughts from centrists such as Francois Villeroy de Galhau, who speaks this morning, and ECB President Christine Lagarde who speaks early in Davos tomorrow.

Also playing a role here could be some data where today's 10:00 am CET release of the ECB's one-year and three-year CPI consumer expectations survey could modestly reprice the cycle should they come in on the strong side. We put out a note last week that the biggest beneficiary of a less dovish repricing of the ECB cycle could be EUR/CHF. And we recommended a three-month EUR/CHF target at 0.96.

For EUR/USD, there is clean support at 1.0875/80. As above with the DXY, we think the Waller speech could see that support level hold and EUR/USD end higher on the day. If we are wrong about the contents of that speech, a break of 1.0875 opens up 1.0800 on the day.

Chris Turner

➡ GBP: Average earnings weighs on sterling

EUR/GBP has edged a little higher in early Europe on the release of UK average earnings data for November. These dipped to a 6.5% 3m/YoY rate – the lowest since last March. Our UK economist James Smith warns that we should not get carried away with this data, however, and that a more important release for the Bank of England will be the December CPI release tomorrow.

Look out for testimony from BoE Governor Andrew Bailey today at 4:00 pm CET. The BoE is not known for over-communication between meetings, but markets now price 130bp of BoE easing this year. If there is pushback against that from Governor Bailey and we are correct with our dollar call today, GBP/USD could turn back to the 1.2750/2800 area.

Chris Turner

CEE: Zloty tests weakest levels since November

The CEE region opened the week yesterday with losses across the board, and only the Hungarian forint (HUF) managed to reverse losses to a flat result. As we mentioned yesterday, bearish pressures have arrived in the region, and for now they're here to stay. Yesterday's final inflation estimate in Poland showed a small upward revision of 0.1pp to 6.2% year-on-year. The core component for December will be released today, where we expect a drop from 7.3% to 6.9% YoY. Otherwise, the calendar is empty.

The Czech koruna (CZK) is following the rate move and for now, it looks like we should stay below 24.700 EUR/CZK. HUF seems the most resilient in the region at the moment. Rates seem to have stabilised after almost two weeks of rally. In our view, however, there is still a gap between FX and the rates market that will have to be closed sooner or later. Therefore, we remain negative on HUF these days with EUR/HUF above 380.

More interesting will be developments in Poland, where it seems that the political story is starting to interfere with the sentiment in financial markets. With the Polish zloty (PLN) being the only currency supported by higher rates these days, EUR/PLN briefly tested the highest levels since last November. With a hawkish National Bank of Poland, the IRS curve would indicate EUR/PLN levels more around 4.320. It seems that political noise and heavy long positioning will make PLN suffer in the coming days given that the political story in Poland seems to be just beginning.

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