

## FX Daily: Bearish unwind into Thanksgiving

Most asset classes have performed well since last Tuesday's US CPI release was soft enough to rule out any further Fed tightening. It is too early to say whether this is genuine buying of risk assets or more just short-covering ahead of Thursday's US Thanksgiving public holiday. However, it does look like the dollar can edge a little lower near-term



### ⬇️ USD: Thanksgiving unwind

The dollar has fallen nearly 2% since last Tuesday's US CPI release [strongly suggested](#) that the Federal Reserve's tightening cycle was over. The dollar's decline has been broad-based, meaning that even the unloved Japanese yen has found a few friends. However, the move looks to be one of short-covering on bearish positions elsewhere in the world rather than a major re-assessment of the Fed easing cycle. In fact, short-dated US yields, [which we see as key for next year's dollar decline](#), have barely budged over the last few days.

Given the major US Thanksgiving public holiday on Thursday, we suspect this period of position-unwind can continue a little further. Inputs into FX markets this week will include [second-tier US data](#) and the release of minutes to the 1 November FOMC meeting. Recall this was the meeting where the Fed retained its tightening bias but included an acknowledgement that tighter financial

conditions were doing some of the Fed's work. The market seems in the mood to look out for some dovish headlines here, and this can prove a negative dollar event risk tomorrow evening.

DXY has decent support at 103.50, marking the 50% retracement of its rally from July. This could mark the lower boundary of this week's trading range, while the top could be the 104.40/50 area.

Elsewhere, libertarian candidate Javier Milei won a decisive victory in run-off elections for the Argentine presidency. He has run on a ticket of shrinking the government and even dollarising the economy. Given the parlous state of public finances and the very low representation of his party in Congress, it looks as though it will take some time to push reforms through. Investors and corporates will be keen, however, to see developments in the exchange rate. The official rate is ARS350/USD, the 'blue' kerb rate is ARS920/USD, and the 12-month NDF outright is around ARS1600/USD. We discussed some of the challenges to dollarisation in an [previous article](#).

*Chris Turner*

## ➔ EUR: Good tidings from Moody's

The euro received some surprisingly welcome news on Friday evening when the ratings agency Moody's Investors Service raised the outlook for Italian sovereign debt to stable from negative while increasing Portugal's ratings by two notches to A3. The market had been speculating about a possible downgrade to Italy last week.

The news comes at a time when the dollar is undergoing a broad correction and has allowed EUR/USD to trade over 1.09. We see good resistance for EUR/USD at 1.0950/60 this week, and failure to break that on tomorrow's FOMC minute event risk could then see EUR/USD settling into some kind of 1.0860-1.0960 range.

Apart from the myriad of ECB speakers this week, the calendar highlight will be the eurozone November PMIs released on Thursday. These have been a (negative) market mover over recent months, and our [eurozone macro team](#) sees little room for improvement here,

Thursday also sees a Riksbank policy meeting. It is a very close call, but we and a thin majority see the Riksbank hiking the policy rate by 25bp to 4.25%. This should be a mild positive for the Swedish krona.

*Chris Turner*

## ⬆️ GBP: Focus on tax cuts

Unsurprisingly, as we head into an election year, the UK Chancellor is looking at ways to reduce taxes. The focus this week is on the Autumn Statement, where we think Jeremy Hunt might have [around £16bn to play with](#), given the better fiscal trajectory than expected. Speculation over tax cuts has centred on inheritance tax and perhaps even income tax and national insurance, which would favour workers at the lower end of the income spectrum. Our UK economist does not, however, think this moves the needle for the Bank of England rate story, where we think rates have peaked and the BoE will start easing next August.

Speculation over tax cuts in a risk-positive environment should be good news for sterling. GBP/USD can push up to 1.2590, while EUR/GBP can correct back to 0.8700 this week.

Chris Turner

## ➔ CEE: Mixed picture for the FX in the region

Today's calendar is basically empty, and it won't get interesting until tomorrow. In Poland, industrial and labour market data will be published on Tuesday. Later we will see a decision from the National Bank of Hungary (NBH). We agree with the market and expect another 75bps rate cut, which was telegraphed last week by the deputy governor. Then, on Wednesday, we will see Polish retail sales. On Thursday, the Turkish central bank will raise rates again, by 250bps to 37.5% in our view. On Friday, Moody's will publish a rating review of the Czech Republic, where it has held a negative outlook for more than a year. We see some chance for an improvement to the stable outlook here.

In the FX market, the forint reacted negatively to falling rates on Friday for the first time since the last NBH meeting, closing the divergence between FX and rates. However, this week will be key for the central bank meeting and communication and maybe new headlines coming from the EU story. We could very likely see higher volatility than in previous weeks, but given Friday's depreciation, we are rather positive on the HUF. This should see it return to 376 EUR/HUF later this week.

In Poland, data this week should confirm the economic recovery, which could give impetus to markets to price out rate cuts in the short term. As we mentioned on Friday, we saw the appreciation in the last two days as premature, and EUR/PLN returned to 4.380, which we now see as fair value. But the short end of the curve, in our view, has a lot of potential to unwind some rate cuts from current expectations. This should be the main driver for PLN this week in our view, and 4.360 is thus a matter of time this week.

The Czech koruna, on the other hand, is following falling market rates, which should remain unchanged this week. The breakdown in the interest rate differential over the last two days to basically the levels prior to the last CNB meeting opens the way to EUR/CZK 24.600 in our view. And we can expect more this week after central bankers return to the headlines and re-open the question of rate cuts in December.

*Frantisek Taborsky*

### Author

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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