

## FX Daily: Bond bears give new energy to the dollar

A very soft 30-year Treasury auction and hawkish comments by Powell triggered a rebound in US yields and the dollar yesterday. Dynamics in the rates market will remain key while awaiting market-moving US data. In the UK, growth numbers were line with expectations, while in Norway, inflation surprised to the upside



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### 📈 USD: Auction and Powell trigger dollar rebound

The dollar chased the spike in US yields yesterday following a big tailing in the 30-year Treasury auction and hawkish comments by Fed Chair Jerome Powell. Speaking at the IMF conference, Powell warned against reading too much into the softer inflation figures and cautioned that the inflation battle remains long, with another hike still possible. If we look at the Fed Funds future curve, it is clear that markets remain highly doubtful another hike will be delivered at all, but Powell's remarks probably represent the culmination of a pushback against the recent dovish repricing.

Remember that in last week's FOMC announcement, the admission that financial conditions had tightened came with the caveat that the impact on the economy and inflation would have depended on how long rates would have been kept elevated. The hawkish rhetoric pushed by

Powell suggests that the Fed still prefers higher Treasury yields doing the tightening rather than hiking again, and that is exactly what markets are interpreting. The soft auction for long-dated Treasuries also signals the post-NFP correction in rates may well have been overdone and could set a new floor for yields unless data point to a worsening US outlook.

Today's highlights in the US calendar are the University of Michigan surveys. Particular focus will be on the 1-year inflation gauge, which is expected to fall from 4.2% to 4.0%. On the Fed side, we'll hear from Lorie Logan, Raphael Bostic and Mary Daly.

Dynamics across the US yield curve will have a big say in whether the dollar can hold on to its new gains. Anyway, we had called for a recovery in DXY to 106.00 as the Fed would have likely pushed back against the dovish repricing. The rebound in yields should put a floor under the dollar, but we suspect some reassurances from the data side will be needed for another big jump in the greenback.

*Francesco Pesole*

## 📌 EUR: Lagarde to speak today

The dollar's bounce sent EUR/USD back close to the 1.0660 mark, and we cannot exclude a bit more pressure as the impact of yesterday's US bond sell-off might be felt across European markets today. The EUR-USD 2-year swap rate differential has widened after yesterday's events and is now close to the 136bp pre-FOMC low.

Today's focus will be on a speech by European Central Bank (ECB) President Christine Lagarde in London. A slow shift from trying to convince markets another hike is a possibility (like in the US, investors remain hard to persuade) to pushing back more directly against rate expectations may start to appear more clearly in ECB members' remarks. The EUR OIS curve prices in a first cut between April and June. The impact on the EUR from ECB speakers has been, however, quite modest and we doubt that would change in a very short time.

Elsewhere in Europe, the UK released third-quarter growth data this morning. GDP was a tad better than expected for the third quarter as a whole, coming in flat, but this was entirely due to a fall in imports. In reality, the domestic elements of GDP were negative, and strike activity earlier in the summer is a key factor. In the bigger picture, the UK economy hasn't really grown this year in level terms. Our base case is stagnation/modest growth, but a recession can't be ruled out. Ultimately, the BoE won't be paying these figures too much attention, with the focus instead on next week's services inflation and wage growth figures.

*Francesco Pesole*

## 📌 Scandies: Riksbank's FX sales in focus after Norway's inflation numbers

The Swedish krona has been the best-performing G10 currency after the dollar this week, sharply outperforming some of its closest peers like NOK and GBP. We observed the rather distinctive SEK-bullish price action in European mornings (around 10:00 am GMT) that points to Riksbank's activity in the FX market. Like every Friday morning, FX hedging data will be released by the Riksbank – this time for the week of 23-27 October, when SEK came under significant pressure and EUR/SEK rose from the 11.60-1.65 to reach peaks above 11.80.

The threshold is around USD 500-600 and EUR 100 worth of sales weekly, and the weekly pace is consistent with the hedging programme ending in four months (the shortest possible window). Higher figures should be negative for SEK, even though the immediate impact may not be too significant.

In Norway, CPI figures for the month of October have just been released. Headline inflation accelerated from 3.3% to 4.0%, more than the market expected. Underlying inflation also increased from 5.7% to 6.0%. In addition to sticky inflation, the recent weakness in NOK has been a rather hawkish signal ahead of the 14 December Norges Bank meeting. Brief spikes above 12.00 in EUR/NOK are a tangible risk before the NB meeting, also considering the recent acceleration in the NB's daily FX purchases.

*Francesco Pesole*

## ➔ CEE: Busy end to the week

Today we have a busy end to the week in the CEE region. October inflation will be published in Hungary. We expect a further fall from 12.2% to 10.3% year-on-year, slightly below market expectations, while the central bank expects 10.5%. Inflation therefore has a high bar for hawkish surprises in our view, and the lower number should support further market bets on rate cuts. However, this week the HUF seems to have fully disconnected from rates and is not interested at all. We believe the relationship should resume sooner or later and lower rates will drive EUR/HUF higher. Moreover, the EU money story seems to come into play soon, which should bring more volatility and a weaker HUF – at least initially. On the other hand, we remain bullish on the HUF in the long term.

In the Czech Republic, we will also see the inflation print for October. We agree with the market expecting an increase from 6.9% to 8.4% YoY mainly due to the base effect from last year. The Czech National Bank (CNB) is expecting 8.3%. However, the survey range is quite wide and skewed towards higher numbers, which could encourage more paying flow in the rates space and support the CZK. On the other hand, we will also see the CNB minutes today, which we think could be more dovish than the press conference following the central bank's decision last week and could push EUR/CZK in the opposite direction. Looking ahead, however, we expect to see weaker economic numbers and hesitant statements from the CNB, which we think will boost rate cut bets and push EUR/CZK higher again.

In Poland, Fitch will publish a rating review after the close of trading. We do not expect any changes this time but it will be the first review after the elections and it will be interesting to see the assessment of the loose fiscal policy and the plan for a record sovereign bond issuance next year.

*Frantisek Taborsky*

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