

FX Daily: Bracing for the tech shock

Global markets are trading in a slightly nervous fashion as they brace themselves for a potential correction in US tech stocks. So far, the correction has been modest compared to the 25% fall in bitcoin, but events over the next 24 hours will have a say in whether moves extend. We'll have FOMC minutes, Nvidia earnings and the September jobs report



Nvidia Corporation
headquarters in Santa
Clara, California

USD: De-leveraging probably favours the dollar

Risk assets continue to trade on the fragile side. The epicentre here is the US. High-yield credit spreads have pushed out to the widest levels since June as investors continue to assess the questions raised by the First Brands bankruptcy and what it says about the slippage of credit rating standards in that sector. While US tech stocks have fallen nowhere near as far as bitcoin (-25%), markets remain nervous. The magnificent seven tech stocks are around 7% off their highs – a drop in the ocean compared to the 70% rally since April. But the understandable fear is that this is a very crowded trade and that a casual walk to the exit could turn into something less orderly should cause be found. Hence, the intense interest in tonight's release of third-quarter results for Nvidia and whether Softbank's decision to sell its entire holdings of Nvidia was

something more than a reallocation of its investments in the US tech sector.

Beyond Nvidia, the focus over the next 24 hours will be on Fed policy. Tonight sees the release of the October FOMC minutes, where 'strongly differing' views on the future path for monetary policy pose an upside risk to the dollar. And then tomorrow's release of the delayed September jobs report will probably be the best chance for the dollar to go lower this week. Should the jobs data fail to swing the market towards a Fed cut in December (currently 50% priced), then pressure remains on equity markets.

What does this all mean for FX? De-leveraging is probably a dollar positive in the first instance, particularly against the most risk-sensitive currencies, such as the Australian dollar and Mexican peso. Normally, a cross rate like AUD/JPY would be the vehicle to follow a sharp pull-back in risk assets, but USD/JPY is following its own path at present. The Swiss franc is probably the preferred safe haven right now, particularly given the Swiss National Bank's limited options to cut rates or intervene. Should we ever get a sizeable US equity correction, however, it should ultimately prove dollar negative, where the downturn in US consumption and the jobs market would cement a deeper Fed easing cycle.

This week's DXY rally has stalled at 99.65/70 resistance. There is no obvious catalyst for it to come lower today, and we imagine there are buy stops above the 99.75 area.

Chris Turner

➔ EUR: Holding up

Despite one month realised EUR/USD volatility sinking to just 4.8%, one month traded volatility has picked up to 6.5%. This suggests investors have not given up on further EUR/USD moves this year. At the same time, the one month risk reversal is sitting bid for EUR calls and USD puts – suggesting investors are yet to throw in the towel on EUR/USD moving higher into year-end. That is mildly encouraging for our call of 1.18 by year-end, but that view does very much rely on softer US data coming in and the Fed cutting by 25bp in December. We should know a little more after tomorrow's release of the jobs report.

The eurozone calendar looks quiet today, with just the final release of September inflation. We cannot see any ECB speakers of note. Expect continued narrow ranges for EUR/USD, but a move sub 1.1560/65 could cause some intraday trouble.

Chris Turner

➔ GBP: CPI data is mildly sterling supportive

ING's UK economist, James Smith, thinks this morning's release of October CPI data could be read as mildly hawkish for Bank of England policy. He highlights: "Headline inflation was a tad above consensus at 3.6% on account of a sharper rise in food prices than we and others had been pencilling in. Last month, food inflation fell back from 5.1% to 4.5%, which did look a little too good to be true. That has bounced back up to 4.9% and remember this is something the BoE hawks are fairly obsessed with at the moment, out of concern it will fuel inflation expectations."

Overall, however, he doubts today's data will be a game-changer for key BoE swing-voter Andrew Bailey, and still favours a 25bp December rate cut. The proximity of next week's Budget is probably another reason why sterling could not hold its initial gains on today's release. We expect sterling

to remain fragile heading into the Budget.

Chris Turner

📌 ILS: Shekel is the tech play

In talking about a possible correction in the US tech sector, we must discuss the shekel. USD/ILS has a decent negative correlation with the Nasdaq, and that is because of the Israeli tech sector. In a bull market, the Israeli tech sector attracts as much as \$5bn in direct investment per quarter. Any big correction in this sector would probably see a sizeable bounce in USD/ILS as investors reassessed the shekel story. Any move through 3.30 in USD/ILS could trigger a sharper correction here.

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