FX Daily: BRICS currencies under pressure

FX markets continue to see a strong dollar even though this week should really be about US data and prospects for Fed easing. The currencies of three of the five BRICS founding members are under pressure. This is not entirely down to the threats of President-elect Trump, but also reflects home-grown problems. US JOLTS data is the highlight today

The Brazilian real is under intense pressure as President Luiz Inacio Lula da Silva waters down fiscal reform

USD: JOLTS data looks the key threat to the dollar today

Political drama in Europe and weak trends in many emerging market currencies are keeping the dollar bid. We doubt that this environment will change anytime soon, although we would look out for today's US JOLTS job opening data (16CET) as the main threat to the dollar today. Fortunately, we had another great speech from the Fed's Christopher Waller last night indicating his inclination to vote for a rate cut on 18 December. The market currently prices 18bp of a 25bp Fed rate cut and so there is room for short-dated US rates and the dollar to fall were the JOLTS data today to surprise on the downside and signal further slack (e.g. a decline in the job opening to employment ratio) in the US labour market.

However, on the international stage, the currencies of many US trading partners are suffering from some home-grown problems. In Europe, it looks like the French government may fall by the end of the week. And many of the BRICS currencies are under pressure. This has less to do with the weekend threats from Donald Trump to tariff any country threatening to support a pre-eminent reserve currency other than the US dollar. That said, those weekend comments merely add another layer of tariff threats to China. Overnight, USD/CNH has pushed up to the highest levels since July as the People's Bank of China fixed USD/CNY close to 7.20. It looks like USD/CNY will test the upper 2% band (7.3430 if fixings remain near 7.20) of the onshore range.

We also have the Brazilian real under intense pressure as President Lula waters down fiscal reform – perhaps with one eye on the 2026 Presidential elections. And after many years of stability (and enjoying carry trade inflows) it looks like the Reserve Bank of India has set the rupee free. USD/INR is now trading at all-time highs (as is USD/BRL) after third-quarter Indian GDP disappointed last week. Our point here is that EMFX looks set to face some of the biggest challenges since the pandemic in 2020 – which is dollar-supportive.

Expect DXY to stay bid in a 106-107 range today, unless the JOLTS data surprises sharply to the downside.

Chris Turner

EUR: French politics to limit euro recovery

French political drama sent EUR/USD below 1.05 yesterday. Rate spreads have pushed out to the wides of the year as the market assumes that pressure is only going to grow on the ECB for rate cuts if governments in both France and Germany are out of order.

EUR/USD may not need to fall much further from here at the moment. And indeed there is some upside risk if US JOLTS data disappoints today. However, any EUR/USD correction may be limited to the 1.0550 area. Expect EUR/USD to pay increasing attention to the French-German bond spread and the French sovereign CDS to see how far investors are prepared to push French sovereign risk.

We are a little surprised not to see EUR/CHF trading below 0.93 on this news and continue to favour a retest of 0.9200/9210 over the coming months.

Chris Turner

CEE: Tactical reasons to see more gains

This morning we saw November inflation in Turkey, which fell from 48.6% to 47.1% YoY, slightly higher than market expectations. The 2.2% MoM reading may cast some doubt on whether the Central Bank of Turkey can start its cutting cycle at the December meeting. Hungary will also release final third-quarter GDP numbers, which should confirm the economy's return to recession with -0.7% QoQ. Also in Hungary, we could see several speakers today including the Minister for Economy Marton Nagy.

CEE FX continues to diverge with HUF weakening further following Moody's decision to change the rating outlook from stable to negative and also lower EUR/USD. On the other hand, PLN and CZK continue to gain. As we discussed yesterday, while we believe this part of the region should follow HUF, tactically we see reasons for further gains here this week.

Both PLN and CZK markets underperformed the rally in EUR rates yesterday, further stretching rate differentials to support the currency. In CZK in particular, we see a renewed relationship between rates and FX, which could lead below 25.200 EUR/CZK this week. PLN is not showing such a strong relationship but is likely helped by the closure of earlier short positioning, which is dampening the pullback of lower EUR/USD. Additionally, the National Bank of Poland press conference on Thursday has the potential for some hawkish repricing, which would add additional impetus to PLN and we could see levels below 4.280 in EUR/PLN this week.

Frantisek Taborsky

BRL: Breaking free

USD/BRL is trading comfortably above 6.00 as President Lula seems to be happy to prioritise politics over financial markets. Here his government has watered down planned fiscal consolidation with some tax breaks for lower-income households. The independent central bank seems happy to let the Brazilian real take the strain as a means to coerce a political U-turn on the fiscal side. Here, the central bank has a large pool of FX reserves and is currently tightening interest rate policy – but so far has avoided FX intervention or threatening more aggressive rate hikes.

With a difficult external environment and no sign yet of a fiscal U-turn, it is hard to see $/BRL turning lower. We have a 6.25 12-month forecast for USD/BRL. If things go very wrong for Brazil and the real effective Brazilian currency falls back to the lows in 2020, then USD/BRL could be a 6.50 story.

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