FX Daily: Consolidative phase

The dollar has entered a consolidative phase, but yesterday's price action gave us a glimpse of what could be more regular price action next year. EUR/USD got a brief lift yesterday from the initial claims data, but a clear and immediate catalyst for a further upside break is not obvious. We like PLN and it remains our highest conviction call in the CEE region

In terms of what this week has to offer, we pick out three key themes: the Fed, OPEC+ and US data

USD: A glimpse of the future?

The dollar has entered a consolidative phase, but yesterday's price action gave us a glimpse of what could be more regular price action in 2024. US initial claims were a little stronger than expected, the US 2-10 year yield curve bull steepened by 3-4bp and DXY sold off around 0.4%. This is the kind of price action we expect to see more frequently next year as tight US rates finally play catch up with the US economy and employment trends start to deteriorate. Before then, however, the FX market will be looking at US two-year yields bouncing around in a perhaps 4.75-5.00% range and dragging the dollar with it.

For today, the focus will be on US housing starts and another batch of Fed speakers. Recent Fed speakers have barely moved the needle on expectations of the Fed policy cycle and instead, it has been the data doing the talking. Perhaps the next big opportunity for Fed-speak will be the release of the minutes of the 1 November FOMC meeting – minutes released next Tuesday. DXY may trade well trade in a tight 104.00-104.85 range before then.

Chris Turner

EUR: Italy ratings event risk

EUR/USD got a brief lift yesterday from the initial claims data, but a clear and immediate catalyst for a further upside break is not obvious. After the close today there is an event risk of a Moody's rating decision on Italy. Moody's has the Italian sovereign rating at one notch above junk and on a negative outlook. Having initiated the negative outlook last August, there may be pressure to resolve it. However, we doubt Moody's will cut Italy to junk today since it would not want to be seen to be initiating turmoil in the European government bond markets. A ratings cut would be a surprise, however, and renew interest in a potential stand-off between Italy and Brussels early next year were the eurozone debt-brake to be introduced. This would be euro negative and in our view send EUR/CHF back to 0.95 again.

Chris Turner

PLN: On the way to pre-Covid levels

The zloty moved to new record highs yesterday. The main story here remains the same, with markets liking the positive sentiment following the election and the change in the central bank's cutting cycle. EUR/PLN touched 4.365 yesterday and then moved back higher a bit. As mentioned earlier, we like PLN and it remains our highest conviction call for now, but yesterday's move seems a bit premature to us. The front of the IRS curve didn't move much and the only positive momentum could have been a higher EUR/USD, but that didn't last long yesterday either. But we believe this is the direction for EUR/PLN in the coming days. In particular, rates have a lot to offer to support PLN. The market is still pricing in too much in terms of rate cuts in our view and the short end move up will push EUR/PLN down. Thus, for today we see levels at around 4.380, but later we should test 4.360 again.

Frantisek Taborsky

CZK: Rates once again point to a weaker koruna

EUR/CZK has been in a range of 24.400-650 since the last Czech National Bank (CNB) meeting but we believe a move higher is imminent. Yesterday's rate move showed that the market is ready to start pricing in CNB rate cuts again, and we see that there is still room to move lower. Purely based on yesterday's rally in CZK rates, we expect EUR/CZK to return to 24.550 today and we think more to come later. The CNB board should be more active in the media again indicating a close call for the next meeting, which should once again open up the discussion about the start of the cutting cycle.

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