

## FX Daily: Correcting the correction

The dollar downtrend appears to be running out of steam. In our view, a further USD recovery is likely from current levels as markets show reluctance to fully jump in on bets of a Fed pivot. We expect EUR/USD to remain below parity. Elsewhere, central banks in central and eastern Europe have continued to deliver hawkish and dovish surprises



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### USD: Room for further recovery

As we had expected, the dollar downtrend has started to prove unsustainable, and we saw a counter-correction in DXY to the 111/112 area yesterday before a stabilisation at 111.00 during a good Asian session for risk. It's hard to see a clear trigger for the reversal in risk sentiment yesterday, and it probably boiled down to markets not being ready to bet heavily on the Fed pivot story.

Markets are also keeping an eye on some "test cases" in the central bank sphere. While the Reserve Bank of Australia slowed the pace of hiking on Tuesday, the Reserve Bank of New Zealand stuck to 50bp increases yesterday, signalling that a 75bp move was considered and that more hikes are on the way. In our view, the latter – hawkish – narrative should prevail for the Fed, ultimately capping the recovery in risk assets and offering widespread support to the dollar.

The data calendar in the US is quite light today after yesterday's ISM Services beat expectations (and partly offset the Manufacturing miss) and ADP labour numbers for September came in at 208k (exp. 200k). While that marks an acceleration from the revised 185k reading for August, it looks like the updated methodology still hasn't closed the gap with the official payrolls figures, hence limiting the ADP's predictability power.

We have quite a long list of Fed speakers to keep an eye on today: Charles Evans, Lisa Cook, Christopher Waller and Loretta Mester are all set to touch upon the economic and monetary policy outlook in scheduled remarks. We don't see why the Fed would want to endorse any of the recent dovish re-pricing in tightening expectations – if anything, we could see some comments aimed at pushing back against any pivot speculation.

We expect a further dollar recovery into the weekend, with upside risks particularly concentrated around tomorrow's payrolls release, when DXY may extend gains into the 112-113 area.

*Francesco Pesole*

## 📉 EUR: Parity is an increasingly relevant level

EUR/USD showed some resistance at the 1.0000 level yesterday before falling back down on the dollar's recovery. Despite the pair having crossed the parity line multiple times recently, that may have increasingly been interpreted as a benchmark level for the broader dollar trend. Considering the reluctance to turn more bullish on the euro into what should be a challenging winter for the eurozone, a sustained recovery to levels above parity in EUR/USD might now only be driven by markets buying more aggressively into the Fed pivot story and/or other drivers offering sustained support to risk assets.

For now, we feel comfortable in reiterating our call for EUR/USD to stay pressured into the 0.90-0.95 in the last months of the year. The new pack of sanctions by the EU likely suggest a prolonged stand-off with Russia, while markets await more details on the proposed oil price cap.

Today's European Central Bank minutes will be quite interesting for European rates as they might shed some light on the quantitative tightening discussion and the size of the next rate hike. Still, the meeting-by-meeting approach may reduce the informative power of the minutes today.

*Francesco Pesole*

## 📉 GBP: Tentative signs of normality

It looks like the pound has continued to realign with the moves in other European and high-beta currencies, although still displaying residual signs of above-average volatility. If sterling absorbed a large share of the negative news during the post-tax event UK market turmoil, it now appears to be trading a bit too much on the strong side, especially considering that gilt yields and GB credit default swaps remain well above mid-September levels.

Today, markets will keep an eye on the Bank of England Decision Maker Panel survey, which collects inflation expectations from company executives, and on a speech by MPC member Jonathan Haskel.

We mostly see downside risks for cable from current levels, and expect a drop below 1.10 in the near term. In EUR/GBP, 0.8700 may emerge as an increasingly solid floor over the coming weeks.

Francesco Pesole

## 📌 CEE: A region that never ceases to surprise

The Polish central bank yesterday **decided** to leave rates unchanged at 6.75% despite market expectations of a 25bp rate hike. Given the hawkish expectations we discussed yesterday, the Polish zloty has come under pressure and we expect more to come today. The interest rate differential fell by 20bp during yesterday's session alone and we expect today's press conference by governor Adam Glapinski to confirm the dovish tone and increase pressure on FX. We expect the zloty to move higher into the 4.85-4.90 EUR/PLN range. Moreover, the global environment is also negative for the CEE. After a longer period of time, we saw gas prices rising again yesterday, which is not helping the whole region and EUR/USD moved lower again after briefly touching parity.

The Romanian central bank, on the other hand, **surprised** on the hawkish side by delivering a 75bp hike to 6.25% instead of the expected 50bp. The published statement suggests that the central bank is concerned about higher inflation despite a slowing economy, the risks of which have moved up from the August meeting. On the FX side, the Romanian leu saw a slight strengthening in response to the decision, but we do not expect this to make a difference and expect a return to the standard level of just below 4.95 EUR/RON.

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