

FX Daily: Corrective forces fade

FX markets start a holiday-shortened week quietly, as the forces that drove the recent dollar correction continue to fade. In China, sentiment is softening as the Covid situation deteriorates again. For the Fed, the market is again pricing 5% rates next year. This week the highlight will be FOMC minutes, European PMIs and a few monetary policy meetings



➔ USD: FOMC minutes in focus this week

The dollar is continuing to crawl higher after its sharp sell-off earlier this month. Driving that sharp sell-off had been a combination of softer US CPI data and some optimism emerging from China regarding Beijing's stance on Covid Zero and the property market. On the latter, it seems that the recent outbreak of Covid in some Chinese cities is still prompting similarly restrictive measures and that the Covid Zero policy has yet to undergo wholesale changes. Additionally, regulatory forbearance on the Chinese property development sector will not turn the economy around. Here our colleague, Iris Pang, remains concerned over China's export sector into 2023. For reference, Korean trade data for the first 20 days of November released overnight was pretty poor - exports falling 17% year-on-year. USD/CNH has comfortably turned higher from the recent low near 7.00.

For the Federal Reserve story, Wednesday will see the release of the minutes of the 2 November

FOMC meeting. [At the time](#), we felt that it was still a reasonably hawkish meeting - although the Fed clearly wanted to shift the narrative from the size of rate hikes to the terminal rate. The minutes could pose a risk that the current dollar correction extends - especially since we will be faced with thin markets later this week as the US celebrates the Thanksgiving public holiday on Thursday. But assuming there are no big surprises - e.g. 'many participants wanting to take stock of the tightening undertaken so far', we would expect the dollar to find support on dips.

Today's session should be reasonably quiet, too. DXY probably trades a 107.00-107.50 range. Upside risks could emerge from rising US Treasury yields were this week's \$120bn of US Treasury issuance to demand concessionary pricing.

And for those who missed it last week, please see our [2023 FX Outlook: The dollar's high wire act](#).

Chris Turner

↓ EUR: PMIs in focus this week

EUR/USD continues to edge lower in quiet markets. The recent outperformance in eurozone equity indices is no longer providing a boost. In addition to the continued wall of European Central Bank speakers, this week will see the advanced November PMIs for the eurozone, Germany and France. The composite PMIs are expected to be in contraction territory for all three and be a reminder that at some point the ECB will probably call time on its tightening cycle. Our team's view is that the ECB hikes 50bp on 15 December (59bp priced in the markets) and then finishes the cycle with a 25bp hike in February. In other words, we look for the cycle to conclude at 2.25% rather than the 2.90% area priced for the markets in late summer.

In the short term, EUR/USD has just sunk below support at 1.0270 and we would not rule out it drifting towards the 1.0200 area near term.

Elsewhere, we note that Swedish house prices dropped 3% month-on-month in October. The Riksbank's recent release of its [financial stability report](#) warned about the heavy lending to the property sector (42% of GDP) and potential problems with a housing market downturn. Our team still expects the Riksbank to hike rates 75bp to 2.50% this Thursday - but the housing sector is certainly one of the factors which can see the Swedish krona underperform in early 2023 and EUR/SEK retesting the October 11.10 high seems likely.

Chris Turner

➔ GBP: Sterling could take a welcome back seat

After a wild ride since the late summer, sterling could now begin to take less of the limelight. The chancellor [has delivered the autumn statement](#) and we are now left to examine how quickly growth softens and how aggressively the Bank of England will tighten when it next meets on 15 December. On the subject of growth, the next input here will be Wednesday's release of the November PMI, where the composite indicator is expected to remain below 50 - for the fourth month in a row.

EUR/GBP is softening as the euro seems to be taking the larger strain of the softer China view. However, 0.8665 should be good intra-day support. We are more bearish on GBP/USD. And unless Wednesday's FOMC minutes throw up some dovish surprises, GBP/USD could drift back to the 1.1700/1710 area this week. [Our year-end GBP/USD target remains a reasonably aggressive 1.10](#) -

largely on the back of renewed dollar strength.

Chris Turner

CEE: All eyes on Hungary, again

Last week, we saw the third quarter GDP results across the region, and with the exception of [Hungary](#), we saw rather [positive](#) surprises. This [week](#) we will see a number of monthly indicators from Poland, including industrial production and labour market data, and the National Bank of Hungary [meeting](#) on Tuesday. We do not expect any fireworks from the central bankers at the November rate-setting meeting. The latest data regarding inflation and GDP were broadly in line with the central bank's expectations and the next staff projection update is only due in December. But Hungary will also be in the spotlight at the government level this week. A decision on Hungary's access to the recovery plan is expected to be taken by the European Commission on Tuesday. However, reports last week suggested that the decision could be delayed, which would be a problem for the EU finance ministers' meeting scheduled for 6 December, when a final decision on the matter is due. We expect Hungary to find a deal with the EU, but given the timing constraints, it could be a bumpy road.

In the FX market, conditions were almost unchanged for the CEE region over the past week. While global conditions remain strongly positive for the region, domestic conditions still remain on the negative side in our view though slightly better than they were. The dollar index remains near its lowest levels since mid-August, sentiment in Europe has improved slightly again, and the CEE region continues to unwind its relationship with gas prices as issues are resolved for this winter. On the other hand, local rates remain volatile and interest rate differentials are unchanged or only slightly higher.

Thus, we expect CEE FX to remain on the stronger side this week, but the situation remains fragile. Of course, the main focus will be on the Hungarian forint, which will be driven purely by incoming headlines, and given last week's indications, we can expect moves in both directions before a deal with the EU is agreed upon and the forint heads below 400 EUR/HUF. The Polish zloty maintains the largest gap against the interest rate differential and has also leveraged the most improvement in global conditions in recent weeks. Therefore, we see a move up to 4.72 EUR/PLN.

Frantisek Taborsky

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.