

## FX Daily: Data check as Fed dovish bets peak

Markets have scaled back some dovish bets on the Fed at the start of this week, perhaps starting to position more cautiously ahead of a Fed pushback and key data releases. Today, JOLTS and ISM services figures will move the market. We retain a moderate bullish bias on the dollar in the near term. Elsewhere, the RBA delivered a dovish hold



### USD: Key data in sight

The dollar has started the week on the front foot, with the market's bets on Federal Reserve rate cuts being scaled back. Since last Friday, the Fed Funds futures pricing for December 2024 has rebounded by around 10bp, currently embedding 125bp of easing next year. Despite being a relatively contained move, it's quite relevant since it bucks the recent dovish repricing trend and did not seem to be triggered by better US data. October factory orders released yesterday were actually weaker than expected.

We suspect markets may be positioning ahead of next week's Fed meeting, when Chair Jerome Powell may insist on his pushback against rate cut bets. Today, however, market moves will be heavily impacted by two important data releases: JOLTS job openings and the ISM services. The first probably holds the keys to a bigger market reaction, given the proximity to US payrolls data

and the fact that markets are anxiously waiting for signs of a decisive turn lower in the jobs market to jump on bearish dollar positions. The ISM services index is actually expected to have improved in November.

A slower-than-expected decline in job openings and resilient ISM figures can push DXY back to the 104.00 handle. Even in the event of figures broadly in line with consensus, short-term rate differentials continue to advise a moderate bullish bias on the greenback.

*Francesco Pesole*

## 📉 EUR: Rate spreads keep pointing down

The two-year EUR/USD swap spread continues to stay depressed around 120-125bp and is consistent with EUR/USD trading closer to 1.0600 than current levels when taking recent history into account. The strong risk appetite last month and growing dovish sentiment on the Fed generated a larger upward response in EUR/USD than what would have been implied by short-term rate dynamics.

It now appears that markets are struggling to find fresh catalysts to chase the bullish risk trend. At the start of this week, the growing focus on China and the underperformance of Asian markets are weighing on general sentiment, favouring the shrinking of the EUR/USD positive risk premium to its rate spreads. Barring a deterioration in US data, we suspect this trend will continue, and EUR/USD will stay capped in the near term. Dovish comments by the ECB's Isabel Schnabel are hardly helping the euro find any support today.

In terms of eurozone data, it will be interesting to see how much the ECB inflation expectations survey moved in October, and in particular, the 3-year-ahead gauge. The calendar also includes final PMI figures.

*Francesco Pesole*

## 📉 GBP: Room for a rebound in EUR/GBP

Cable will continue to move in line with the dollar, given the lack of domestic inputs from the UK calendar, which only includes final PMI figures today. We still think that a convergence towards the key 1.2500 and even the 100 and 200-day MA at 1.2470 are more likely than a further rally given room for a dollar rebound, although US data means risks are quite binary.

When it comes to EUR/GBP, the drop appears to be overdone, and we expect a gradual dovish repricing in Bank of England rate expectations to favour a rebound above 0.8600, although that may not happen in the very short term.

*Francesco Pesole*

## 📉 AUD: Dovish hints by the RBA

Unsurprisingly, the Reserve Bank of Australia kept rates unchanged at 4.35% but sounded less hawkish than expected to markets and forced a decisive break below 0.6600 in AUD/USD. Governor Michele Bullock, who had previously stood out as a hawk, claimed that some time is necessary to address the impact of rate hikes and that whether more tightening is needed will depend on data.

Markets were likely positioned for a more hawkish statement after the minutes and given the fact there is an unusually long gap until the next policy meeting in Australia (6 February). Still, we think that with the door remaining open for more hikes and the recent history suggesting quick reactivity by the RBA to upward surprises in inflation, markets will remain tempted to keep some residual bets on tightening early in 2024.

While we expect the USD to find some support and cap the upside for AUD/USD into year-end, we continue to favour bearish positions on EUR/AUD on the back of a valuation gap.

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