

## FX Daily: Dollar approaching support levels

FX markets are becalmed by holiday trading conditions in the US and a very light data calendar. A further unwinding of long dollar positioning remains the risk, but we think the dollar is getting close to some decent support levels. Elsewhere, 75bp rate hikes are still going through in the likes of Sweden and South Africa



US retailers have come up with the 'Cyber Five' sales promotion campaign which should boost retail sales

### ➔ USD: Focus on 'Cyber Five' retail sales

Today sees another holiday-shortened US session following the Thanksgiving public holiday. Innovative US retailers have come up with the 'Cyber Five' sales promotion campaign which stretches from Thursday's Thanksgiving all the way through to Monday. Expect to hear reports as to how this has gone, although high levels of employment and lower levels of petrol prices (now \$4.30/gallon versus a high of \$5.50 in June) suggest retail sales may hold up despite talk of the looming 2023 recession.

FX markets are becalmed and the only stand-outs yesterday were the large 75bp rate hikes in Sweden and South Africa, [plus the 150bp rate cut in Turkey](#) in preparation for elections next year. We also note the further legacy of this year's rise in dollar and US yields, where Ghana looks set to impose a 30% haircut on Eurobond holders as it seeks a deal with the International Monetary

Fund (IMF).

Back to the dollar – buy-side surveys taken right before the big sell-off on 10/11 November still had long dollar positions as 'the most crowded trade' and saw the dollar as the most over-valued on record. We doubt those views will have changed that much and the buy-side will now be eager to sell any dollar rallies, believing the dollar may well have peaked. That may be the case, but as we discuss in our [2023 FX outlook](#), we doubt conditions will be in place for a major dollar bear trend.

We mentioned earlier that the dollar may be nearing some decent support levels. We think DXY has strong support near 105.00, marking the 200-day moving average, important lows in early August and a big 38.2% retracement level of the whole rally from summer 2021 (when the Fed started this dollar rally with its more hawkish Dot Plots). For those needing to buy dollars, DXY levels near 105 may be as good as any.

*Chris Turner*

## ➔ EUR: A little less pessimism

Business surveys in [Germany](#) and [France](#) released yesterday showed a little less pessimism. And increasingly there is a view that the forthcoming downturn will be mild because of issues like a) strong employment b) large government support and c) strong household savings. Our eurozone team, however, are a bit more pessimistic. Certainly, Europe's large exposure to the manufacturing cycle and what should be weaker export markets make us sub-consensus on European growth prospects.

Despite the looming eurozone recession, ECB hawks such as Isabel Schnabel suggest it may be premature to scale back rate increases. Currently, the market prices 61bp of hikes on 15 December (we expect 50bp). Clearly, the 50bp versus 75bp debate will continue to run. For EUR/USD, it still looks like the big dollar story is dominating. We cannot rule out a further correction into the 1.05-1.06 region but would see these as the best levels before year-end. These levels could be seen next week should Fed speakers or November US jobs data prove the catalyst.

*Chris Turner*

## ➔ GBP: BoE stays hawkish

Recent speeches have seen the Bank of England (BoE) staying pretty hawkish despite the fiscally tight budget and broadening consensus of recession. We think positioning has played a major role in this sterling recovery and GBP/USD could see some further, temporary gains to the 1.22/23 area – which we would again see as the best levels before year-end.

Equally, EUR/GBP has good support in the 0.8550/8600 area, and given our view of a difficult risk environment into year-end and early 2023 as central banks raise rates into recessions, sterling should remain vulnerable.

*Chris Turner*

## ➔ JPY: Set for out-performance into 2023

Probably the best chance of the dollar having peaked is against the Japanese yen (JPY). USD/JPY is now nearly 10% off its high near 152 in late October. Next week we will find out whether Japanese

authorities sold FX in November – having sold a combined \$70bn in September and October. So far intervention can be considered to be exceptionally well-timed and effective.

If the dollar is to move lower in 2023, USD/JPY would be the best vehicle to express the view, in our opinion. This is based on the view that the positive correlation between bonds and equities can break down – bonds rally, equities stay soft – and that the US 10-year Treasury yield ends 2023 at around 2.75%. USD/JPY could be trading at 125-130 under that scenario. We now suspect that any dollar rally between now and year-end stalls at 142/145. In addition, USD/JPY will be facing a change in the ultra-dovish Bank of Japan governor next April – a big event risk for local and global asset markets.

*Chris Turner*

## Author

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@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](http://www.ing.com).