

FX Daily: Dollar downside risks persist

We think the conditions for USD weakening persist after yesterday's rollercoaster ride. USD/JPY remains particularly vulnerable after the BoJ's seemingly hawkish turn, while EUR/USD is awaiting some hints from crucial Ukraine-Russia peace negotiations



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⬇️ USD: Still vulnerable

The dollar came under pressure yesterday during European hours but recovered during New York's session, potentially thanks to some safe haven flows abandoning high-beta currencies. Admittedly, the current market environment – bonds and risky assets both falling – isn't giving clear-cut indications for FX. Some risk stabilisation is likely needed to bring the dollar lower, which remains our call for this week.

As discussed recently, the dollar remains expensive relative to its short-term rate differentials across most of the G10. Yesterday's ISM manufacturing didn't move pricing for a December cut as expected: prices paid were a bit higher than expected, but the headline index print was soft. We expect that the remainder of the week will validate the market's dovish pricing for next week's Fed meeting.

Part of yesterday's market instability was driven by a bond market selloff in Japan following hawkish comments by BoJ Governor Kazuo Ueda. After yesterday's spike in 10-year JGBs yields by

around 6bp, this morning we see some calming and a decline of almost 3bp from the highs, and pricing for a December hike is 20bp.

USD/JPY briefly traded below 155.0 yesterday before the USD rebound: we think conditions for a new break lower this week are all there unless we hear some softening of the hawkish tone by Ueda or other officials.

Francesco Pesole

📈 EUR: Cool CPI not a game-changer

Developments in the Russia-Ukraine peace talks remain the most relevant topic for the euro this week. As US Special Envoy Steve Witkoff meets with President Putin today, we should gain a clearer sense of how close we are to any agreement.

On the macro side, today's CPI shouldn't move the needle dramatically for ECB rate expectations. However, we expect this flash November estimate to show headline CPI slowing from 2.1% to 2.0% and core from 2.4% to 2.3%, which are both 0.1 percentage points below consensus. If anything, the risks are slightly on the downside for the euro, but our expectation is for a neutral FX impact nonetheless and EUR/USD can eye 1.170 again soon if USD drops in line with our call.

Francesco Pesole

📈 HUF: No change is good news

Moody's decision on Friday to leave [the sovereign rating](#) unchanged, including a negative outlook, was received positively by the market. Apparently, the market saw the risk of a downgrade as realistic after the government raised fiscal targets for this year and next year to a 5% GDP deficit. It seems that one milestone is behind us, but Hungary is not out of the woods yet.

This Friday will be the Fitch rating review. Fitch was more optimistic about the fiscal situation than Moody's, and, therefore, the government's review causes a larger deviation from the forecast. Moreover, Fitch still has a "stable" outlook for the rating, which makes Hungary more sensitive to any changes in the fiscal path. The question is whether the market becomes more optimistic after Moody's decision or priced in these differences and a possible deterioration in Fitch's outlook, which is our baseline, could change the current optimism.

EUR/HUF jumped below 381 yesterday, new lows, and as we mentioned last week, testing 380 is probably just a matter of time. Although Fitch's decision this Friday will probably be negative, it is already priced in to some extent. At the same time, the promise of peace between Ukraine and Russia will offset the potentially negative impact, in our view.

As we discussed here yesterday, the market is still pessimistic about progress in the negotiations, and a possible agreement would provide a boost to FX across the CEE region. Therefore, the short-term picture for HUF remains bullish in our view.

Frantisek Taborsky

📈 CEE: Turkey doesn't need to rush into further rate cuts

Yesterday's PMI data in the CEE region showed an improvement in sentiment in all countries

except Romania, which was closed for a public holiday, and we will see the data only today. This is good news across the region and, after a long time of promising some improvement in the numbers next year, this increases our conviction in the baseline recovery scenario.

In Turkey, yesterday's GDP numbers showed some slowdown in the economy, but the result is not as bad as we expected. Therefore, our economist raised our estimate of full-year growth from 3.4% to 3.8%. Inflation numbers from Istanbul yesterday showed some upside, suggesting a higher risk for Wednesday's headline number vs market expectations (31.7%).

Overall, it seems that the Central Bank of Turkey will not rush into further rate cuts and 100bp is our baseline for the meeting next week. This would also mean a longer period of stable carry trades and, in our opinion, later changes in the current FX regime, maintaining TRY on a stable weakening path, compensated by sufficient carry.

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