

## FX Daily: Dollar rally looks in line with key drivers

The post-CPI re-pricing extended into Monday and continued to fuel a rally in the dollar. This rally is still not looking overdone and is instead broadly in line with main rates and equities dynamics. EUR/USD may well test 1.1300 this week, EUR/GBP may stay offered on strong UK data, while EUR/HUF may rise on any dovish surprise by the NBH today.



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### USD: Dollar rally not overdone

The inflation-related recalibrations in global asset classes extended from last week into Monday, and translated into a broad underperformance of back-end rates and, in FX, in another dollar rally. We'd be tempted to call for a pause in the dollar outperformance today, given how far the rally has gone in the past few days. However, our short-term fair value model is not showing signs of widespread overvaluation of the dollar – which is expensive only vs CAD, NOK and AUD in G10 – signalling that the recent FX moves have been mostly in line with changes in the main rates/risk sentiment drivers.

After some very strong Empire Manufacturing numbers yesterday, we expect to see a quite robust

October retail sales report in the US today. A quite busy week for FedSpeak will kick off with the most hawkish voice in the FOMC, James Bullard, who will speak in a television interview today. The strength of the latest CPI report is inevitably providing lots of good arguments for the advocates of faster action on monetary policy, and we see little reason for the Fed narrative to turn any less supportive for now. The main downside risk for the USD in this sense may be the nomination of Lael Brainard as the new Fed Chair, given her generally more dovish stance compared to Powell.

Looking at the commodity side, a potential US intervention in the oil market to ease energy costs continue to pose downside risks for crude prices, although commodity currencies remain quite shielded thanks to their positive correlation with the steepening of the US yield curve. Also, Asian currencies appear to have received a lift this morning from tentative signs of de-escalation in US-China tensions after yesterday's Biden-Xi virtual meeting, and we still see any further USD gains this week as likely to be mostly against the low-yielders.

### ⬇️ EUR: Eyeing a move below 1.1300?

EUR/USD continues to break lower, and is now looking at 1.1300 as the next key support level. Unsurprisingly, yesterday's remarks by ECB President Lagarde fell into the dovish side of the spectrum, as she reiterated her view that rates are very unlikely to be raised in 2022 while she refrained from commenting on a potential 2023 move.

Today, Lagarde will speak again at an event that doesn't have monetary policy as its main topic, while the eurozone's data calendar only includes the hardly market-moving second read of 3Q GDP figures. The EUR remains exposed to the downside in our view, and our short-term fair value model is showing that a move below 1.1300 would actually be in line with changes in the main drivers: primarily the short-term swap differential, but also the relative shape of the curve, relative equity performance and global risk appetite.

### ➡️ GBP: Strong jobs data support a December hike

This morning's jobs data out of the UK confirmed our view that the drag generated by the end of the furlough scheme was limited. September's unemployment rate fell by more than expected, from 4.5% to 4.3% as the economy added 247k new jobs. October's claimant count rate also decreased from 5.2% to 5.1%. Weekly earnings eased from the previous month, but by less than expected.

Fears of a slowdown in the jobs market around the end of the furlough scheme was a major factor that prompted the Bank of England to keep rates on hold at its latest meeting. Given the lack of evidence of a slowdown in today's strong jobs data, the case for a December 15bp hike is now stronger, and markets are almost fully pricing in such a move.

EUR/GBP broke below 0.8500 yesterday and may remain offered today thanks to the good jobs figures and a generally bearish EUR bias. We expect tomorrow's UK CPI numbers also to come to the benefit of GBP as inflation looks likely to have risen close to the 4% level in October.

### ⬇️ HUF: NBH unlikely to start sprinting today

The National Bank of Hungary meets to set interest rates today amidst surging inflation across Eastern Europe. In October, Hungary's CPI pushed up to 6.5% YoY and core rose to 4.7%. This comes at time when inflation expectations are continuing to drift higher and the NBH policy base

rate at 1.80% seems on the low side.

Consistent with the NBH viewing this tightening cycle as a 'marathon not a sprint' we suspect the NBH may disappoint market expectations of a 50bp hike in the policy rate. 30bp looks more likely and the NBH could back this up by suggesting it will rein its current QE programme more aggressively in December.

A modest 30bp hike looks at risk of disappointing markets, leading to a steeper HUF yield curve and some further under-performance of the HUF. Given the soft EUR/USD environment, another relatively small rate hike from the NBH (following up two 15bp hikes) could see EUR/HUF head up to the 369/370 area.

## Author

### Francesco Pesole

FX Strategist

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

### Chris Turner

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

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

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