

## FX Daily: Dollar rebound increasingly hinges on activity data

The further decline in USD rates means that it will now be up to activity data to trigger a recovery in the dollar. We have a couple of days packed with important US releases into the weekend, as well as a key OPEC+ meeting. Inflation figures in the eurozone may not have a huge impact on the euro



### USD: Data takes over

The dollar has found some support despite bullish sentiment on US bonds with Treasury yields breaking through key levels. When rates previously jumped in the US, the dollar proved highly sensitive to the initial move and less so as the bond sell-off continued: something similar appears to be happening now as Treasury yields extend their drop. That said, a key argument for a dollar rebound was probably the fact that the rate differential was still more favourable to the greenback than what the dollar level was implying: now, the room for a dollar rebound has shrunk based on pure rate fundamentals. In other words, US activity data needs to do the heavy lifting in a dollar recovery by reviving bond bears.

Yesterday, the second release of 3Q US GDP showed even stronger growth (5.2% quarter-on-quarter annualised) than the preliminary 4.9%, but core PCE was weaker (2.3%) than the first release. We now have two busy days on the data side into the weekend. Today, jobless claims will be closely watched after last week's drop to 208k, and given the proximity to payrolls. The

consensus is for a rebound to 218k. Personal spending data is also key given the centrality of resilience in consumption in the soft landing debate: the consensus is for a decline to 0.2% in both personal income and personal spending in October. PCE inflation (the Federal Reserve's favourite indicator) is also expected to have slowed in October. That would not be a game changer for the dollar, however, since the disinflation story appears to have been absorbed by markets, and activity indicators hold considerably higher importance for FX.

Fedspeak is also under very close scrutiny now. Rising bets on Fed easing have not been met by the sort of pushback we had heard in previous instances, and that is allowing dovish expectations to get stickier. Admittedly though, most comments by Fed officials continue to be about the short-term monetary policy outlook. Yesterday, Loretta Mester, Raphael Bostic and Tom Barkin all discussed the prospect of another hike – something markets have completely priced out and may only reconsider if inflation were to rebound materially. Incidentally, more and more FOMC members are endorsing the pause narrative, which is already fully priced in but is widening the path for market doves to speculate on future meetings.

We are still doubtful the Fed will want to sit and watch as rates fall, given the lingering interest to keep financial conditions tight at the current juncture, so a more decisive pushback against rate cut bets remains a tangible risk for the FX market, and a secondary path for the dollar to find support outside of US data. We still expect DXY to climb back above 103.00, but watch for growing selling interest around 103.50 until (and if) key data releases halt the UST rally. It is also OPEC+ meeting day, and [our commodities team](#) believes the cartel will be focused on not disappointing the market, although downside risks for crude have admittedly risen.

*Francesco Pesole*

## ⬇ EUR: A widely expected further drop in inflation

Early signals from [Germany](#) and [Spain](#) have been encouraging: inflation [in the eurozone](#) is falling faster than expected, also on the core side. Today, the rest of the area's countries will release November's inflation figures, with France's CPI expected to have slowed to 3.7%, and the eurozone's aggregate headline inflation seen decelerating from 2.9% to 2.7%, with the core rate moving from 3.9% to 4.2%.

The implications for the euro would probably be material only if the figures come in surprisingly higher than expected. That's because markets are already pricing in 75bp of easing by the European Central Bank in 2024, with no chance of any more hikes. Above all, the focus appears to be much more on the deteriorating growth outlook than on a well-telegraphed inflation slowdown.

That said, lower inflation is hardly ever good for a currency and may keep the euro's upside room capped today, even though data from the US could cause large swings in EUR/USD regardless. We still favour a return to sub-1.0900 as opposed to a sustainable rally beyond 1.1000.

*Francesco Pesole*

## ➡ NOK: Possible reduction in December FX purchases

Norges Bank will announce the amount of daily FX purchases for December today. Our model estimate based on oil prices and petroleum revenue forecasts suggests purchases should be kept

at 1,400mn for December.

However, it's worth highlighting that Norges Bank scaled back FX operations quite substantially in December (compared to the previous month) over the past three years, more than what our model would have suggested. Last year, we thought lower FX purchases were also signalling some openness to easing pressure on NOK. Now, given the substantial support offered via higher rates, that is less likely and we still estimate relatively elevated FX purchases this year. That might change should NOK face fresh significant pressure or the Norges Bank turns more dovish on monetary policy.

NOK has been strong along with other high-beta currencies of late, and we are bullish on the currency in the medium term, but we suspect the rally has started too early. That is, however, only due to external factors, as markets have priced out the chance of a Norges Bank hike in December (20% priced in now) and a potential reduction in FX purchases in December is positive for the krone.

*Francesco Pesole*

## CEE: Polish inflation supports stronger zloty

Today the first interesting data in the CEE region will be published this week. PPI in Hungary was released this morning. Later today we will see November inflation and the second reading of 3Q GDP in Poland. We expect steady headline inflation at 6.6% year-on-year, in line with market expectations. We expect a further decline in core inflation, but it will be accompanied by less favourable developments in energy prices as gasoline prices bounced back after two months of declines.

FX erased some gains yesterday. Although we expected the CEE to move higher, the zloty lost the most in the region despite our expectations. However, today's numbers could put the topic of a hawkish turn by the National Bank of Poland in November back on the table and adjust market expectations for the coming meetings. There is a clear consensus of stable rates for December, however, the market still sees roughly 125bp for next year. After the fall in rates over the last two days at the short end of the curve following core rates, we see room here for rates to go higher again, supporting a stronger zloty. Thus, if today's numbers confirm inflation persistence, we expect EUR/PLN to test 4.320.

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