

FX Daily: Dollar rides out seasonal weakness

December is normally a weak month for the dollar, having declined this month in eight of the last ten years. Market sentiment still feels slightly negative on the dollar, where it falls far more easily than it rises. We cannot see an immediate catalyst for another dollar decline today and would expect more consolidation ahead of event risks next week



➔ USD: Holding pattern

As above, December is normally a weak month for the dollar. January and February are typically much better months. Thus for dollar bulls like ourselves, December is proving a month of damage limitation. Dollar price action is still soft. Any whiff of softer price data - e.g. yesterday's downward revision to US 3Q unit labour cost data - sees the dollar easily slip. Dollar gains remain hard to come by.

Beyond today's US initial claims (remaining remarkably low in the 220-240,000 region) will be November PPI data tomorrow (core expected to fall to 5.9% year-on-year from 6.7%) and then an incredibly busy week into Tuesday's CPI release and Wednesday's FOMC meeting. Preventing an

even large dollar correction this month is the fact that Fed expectations have not yet crumbled. The terminal rate is still priced above 4.90% for next spring and this is just about keeping US two-year Treasury yields above the 4.25% area. Short-end yields holding up here and the ongoing inversion of the US curve is key to our call that the dollar can hold gains/bounce back into 1Q23. Clearly, next week's FOMC meeting will have a big say here - we will publish our FOMC preview shortly.

DXY looks like it will continue to trade on a soft footing near 105.00, but should meet demand below there.

Chris Turner

📌 EUR: ECB focus moves onto QT

EUR/USD remains reasonably supported near 1.05 - helped largely by the dollar's soft performance across the board. We may be reading too much into it, but the pricing through the OIS market for next week's European Central Bank rate meeting yesterday edged up to a 67bp hike from 54bp a day earlier. The move may be a function of some more hawkish remarks from ECB Chief Economist Philip Lane and seems to be putting the risk of a 75bp hike back on the agenda. Our house call is for 50bp.

Our base case view assumes that this EUR/USD corrective rally stalls in the 1.05/1.06 area this month. The bigger risk of a rally probably comes more from a less hawkish Fed than a more hawkish ECB. Equally, we do see European gas prices edging higher again as a cold snap hits northern Europe. TTF natural gas prices are now back up to EUR150/MWH from 100 earlier this month. This will again pressure the trade balance and higher gas prices are one of the key reasons we are not more bullish on EUR/USD next year. Expect another narrow EUR/USD range today centered around 1.05. The data calendar is quite light and ECB speakers are President Christine Lagarde at 1300CET, Pablo De Cos at 1315CET and Francois Villeroy at 17CET - all seen on the dovish end of the spectrum.

Elsewhere, we have the Swiss National Bank's (SNB's) Andrea Maechler speaking at 1530CET. In addition to Fed, ECB and Bank of England rate meetings next week we also have the quarterly SNB policy decision. It looks like market pricing is split between a 25bp and 50bp hike (taking rates to 0.75-1.00%). Let's see what she has to say today. EUR/CHF has been a bit stronger than we had expected, but assuming the SNB stays hawkish, we continue to see downside risks here.

Chris Turner

📌 GBP: Housing downturn starting to gain momentum

The latest RICS survey on house price expectations shows respondents the most negative on the outlook for UK house prices since May 2020. That is not a surprise given the cost of living crisis and policymakers in the process of tightening, not loosening, fiscal and monetary conditions. Despite seasonal weakness in the dollar, we really struggle to see GBP/USD trading much higher and for those corporates with USD needs or GBP receivables, we see these 1.22/23 levels as perhaps the best GBP/USD levels for the next three to six months.

Chris Turner

CEE: Zloty will follow the NBP press conference

As expected, the National Bank of Poland left rates unchanged at 6.75% yesterday. This is the third meeting in a row when the council did not raise rates. The post-meeting statement did not bring much new. The council's assessment remained unchanged compared to November and given that, as in November, the decision was announced after the close of trading, we have to wait for the market reaction. However, the main event, Governor Adam Glapinski's press conference, will come later today and we can expect another dovish outcome.

In Hungary, we will see inflation for November today. We expect the headline number to exceed 22% and core inflation at 23% YoY, slightly above market expectations. We see food prices rising further as domestic producer prices are skyrocketing in the food industry (close to 50% YoY). Still, the strengthening of the forint may ease some pressure on imported inflation, and as aggregate demand retreats, inflation in services could also slow down.

On the FX side, the forint has stabilised around 410 EUR/HUF after a barrage of EU headlines in recent days and we expect it to stay there until next week when we should hear new headlines from Brussels. The Polish zloty will be tracking the NBP governor's press conference and thus will hardly see reasons to strengthen. On the other hand, we expect the zloty to retest 4.72 EUR/PLN. The Czech koruna strengthened yesterday to its strongest levels since mid-November, probably in response to the Czech National Bank's confirmation of zero activity in the FX market in October and the erasing of the last hopes for the central bank's exit from this regime, and can be expected to remain in this range of 24.25-35 EUR/CZK.

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