

FX Daily: Dollar unlikely to correct into Thanksgiving

Today's focus will be on the minutes of the November FOMC meeting, a chance for the market to gauge the divergence between hawks and doves within the committee as tapering was announced. We see no catalysts for a dollar correction heading into the Thanksgiving break, and risks are skewed towards a break below 1.1200 in EUR/USD, in our view



USD: Staying supported ahead of Thanksgiving break

The dollar consolidated yesterday as low yielders (in particular JPY and SEK) kept losing some ground. The main development in global markets was the decision by the US – as part of a deal with China, UK, Japan, India and South Korea – to release 50 million barrels from its crude reserves in an attempt to ease energy prices. Still, the market was likely pricing in a bigger intervention and given the risk of an OPEC+ retaliation, oil prices ultimately rallied. NOK and CAD found some support, although mostly in the crosses given the current reluctance in the market to turn bearish on the USD.

Today, all eyes will be on the minutes of the November FOMC meeting, the last key market event

before the Thanksgiving break. Naturally, the minutes will be somewhat outdated as the meeting took place before the release of the October inflation report. Still, it will be interesting to gauge how much divergence of views there was between hawks (like James Bullard, who proposed 30b of tapering per month) and doves (like the new Vice Chair Lael Brainard), as above-6% inflation has now clearly provided a strong argument in favour of faster tapering and earlier tightening.

On the data side, we should see a modest upward revision to 3Q GDP data (likely to 2.1% or 2.2% quarter-on-quarter), while October's PCE, personal income and durable goods orders are all likely to improve from the month before.

We struggle to see a clear catalyst for a material dollar correction before the Thanksgiving break and the risk of markets finding new reasons to support their hawkish bets in the Fed minutes – combined with good data – suggests the dollar may inch higher today.

↓ EUR: German Ifo in focus

Yesterday's PMIs were a positive surprise for quite choppy eurozone sentiment, although they failed to turn the tide for EUR/USD which remains capped due to idiosyncratic dollar momentum and concerns about rising cases and new restrictions in the eurozone.

Today, the Ifo survey out of Germany will be another important gauge of whether Covid-related concerns have started to hit business sentiment. We think the impact on the EUR should be either neutral (if above or around consensus) or negative (if a big miss), although further developments on possible restrictions in Europe should remain a more important driver. EUR/USD may extend losses to below 1.1200 after the FOMC minutes.

→ GBP: Looking for signs of Covid-related moves in EUR/GBP

Yesterday, good PMIs in the UK seemed to support the case for a December Bank of England hike, while some dovish comments by Jonathan Haskel (a known dove) had no impact on market rate expectations.

Today, the data calendar is quite empty in the UK, with only some focus on a speech by MPC member Silvana Tenreyro, normally a dovish voice too. EUR/GBP has remained tied to the 0.8400 level: a decisive move below that mark may signal investors are starting to price in diverging contagion/growth paths for the UK and the eurozone, something similar to what we saw at the beginning of the vaccination programme in 1Q21.

→ NZD: Not that dovish of a hike by the RBNZ

The Reserve Bank of New Zealand decision overnight was fully in line with our expectations: a 25bp rate hike and policy rate projections raised to 2% by end-2022. The statement did highlight some lingering global uncertainty given new clusters of Covid-19 cases, but it also noted how the extremely tight labour market and likely economic resilience despite lockdowns in New Zealand still suggests inflation will prove persistent enough to require some quite aggressive tightening.

The updated economic forecasts showed that the RBNZ now expects inflation to stay very elevated in the short-run (at 5.7% in 4Q21 and 1Q22) and to decrease below 3.0% only in 2023. A convergence to the 2.0% target mid-point is only expected in 2024. Given this inflation outlook, the risks are skewed towards the RBNZ ultimately delivering more than the 125bp of tightening in

2022.

The NZD had a moderately negative reaction as a) part of the market was speculating about a 50bp hike today and b) some rate expectations for 2022 were marginally scaled back. Still, markets are targeting a 2.50% policy rate by end of 2022, and we think forthcoming data should not particularly dent this hawkish view. NZD is set to retain the most attractive carry in G10, which should help the currency gradually move to the 0.74 level by end-2022, in our view.

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