

## FX Daily: Doves and turkeys

The Fed minutes surprised on the dovish side, signalling strong support for slower rate hikes and weaker support for Powell's higher-for-longer rhetoric. The dollar could stay pressured for a bit longer, but it's probably embedding a good deal of Fed-related negatives now. US markets are closed for Thanksgiving. Elsewhere, expect a 75bp hike in Sweden



### 📉 USD: Dovish feeling

If the November FOMC event failed to convincingly signal a dovish shift, the minutes of that meeting – released yesterday – were surely more effective in that direction. There are two key points in the minutes that markets are interpreting as dovish statements:

1. “A **substantial** majority of participants judged that a slowing in the pace of increase would likely soon be appropriate”.
2. “**Various** participants noted that [...] their assessment of the ultimate level of the federal funds rate that would be necessary to achieve the Committee's goals was somewhat higher than they had previously expected”.

Point one simply indicates that there is a larger-than-expected (“substantial”) majority of the

Committee that is backing a slower pace of tightening. When adding the lower-than-expected October CPI reading to the equation, expecting more than 50bp in December would look quite counterintuitive now, and a switch to 25bp increases from the January meeting appears increasingly likely.

In point two, markets may have focused on the term “various”, which indicates a rather vague consensus backing Chair Jerome Powell’s post-meeting “higher-for-longer” statement. This is very relevant, as Powell pushing longer-term rate expectations higher in the November press conference was the main counterargument to the “dovish pivot” narrative: now, it looks like his approach might not have had much backing from other FOMC members.

The market reaction has been quite straightforward: risk-on, dollar-off. As we had signalled in recent commentaries, the minutes were set to be a key risk event for the dollar, and we are not surprised to see another leg lower in the greenback in an environment where markets are already shifting away from a longer-term structural long-dollar positioning. Fed funds futures are currently embedding a peak rate at 5.0%, but it might prove harder to see further re-pricing higher in rate expectations after the dovish minutes.

At the same time, the degree of cautiousness manifested by Fed officials after the softer CPI figures means that markets may be reluctant to further revise their peak rate bets lower in the near term. This means that one-way traffic in FX, with the dollar staying on a downtrend for longer, still appears unlikely. The greenback has now absorbed a good deal of negatives when it comes to the Fed story, and in our view can still benefit from the deteriorating outlook outside of the US (especially in Europe and China) in the coming months. While we don’t exclude the dollar contraction to take DXY below 105.00, we struggle to see sub-105 levels holding for very long.

US markets are closed for Thanksgiving today, and will be open for only half a day tomorrow. There are no data releases or Fed speakers until Monday. Expect a significant drop in liquidity into the weekend.

*Francesco Pesole*

## EUR: Enjoying an ideal mix for now

European currencies are enjoying a strong rally, as lower energy prices (crude was hit by the EU oil price cap proposal) and higher-than-expected PMIs yesterday had already offered some support to European sentiment before the Fed delivered some dovish minutes.

We remain doubtful that it will be a smooth ride to recovery for European currencies, and our commodities team continues to see upside risks for energy prices into the new year despite recent developments. EUR/USD has broken above 1.0400 and may extend its rally to 1.0500/1.0550 in the near term, but we suspect the bullish trend may start to run out of steam as we approach year-end. A return towards parity remains our base case for December.

Today, the Ifo numbers will be watched in the eurozone, as investors will scan for further evidence of slight improvements in the business outlook. European Central Bank member Isabel Schnabel will speak at a Bank of England event today, where the BoE’s Dave Ramsden, Huw Pill and Catherine Mann will also deliver remarks.

*Francesco Pesole*

## ⬆️ SEK: Riksbank to hike by 75bp

Scandinavian currencies have been the best G10 performers since yesterday, due to the Swedish krona's high sensitivity to EU sentiment and the Norwegian krone's high sensitivity to global liquidity conditions.

SEK is facing an important risk event today, as the Riksbank is set to deliver another rate hike at 0830 GMT. [As per our meeting preview](#), we expect a 75bp hike, which appears to be very much a consensus call. We did see the RB surprise with a 100bp move earlier this year, but that would likely be a risky move given the strains in the Swedish housing market.

From an FX perspective, we don't expect major and long-lasting implications from today's policy decision for the krona, which is currently enjoying a rather unique combination of positive factors (on the European and global risk sentiment side). We could see a further leg higher in SEK in the coming days, but our longer-term view remains that the krona will underperform as the eurozone enters a prolonged recession in 2023. We forecast a sustained return to levels below 10.50 in EUR/SEK only in the second half of next year.

*Francesco Pesole*

## ⬇️ CEE: Consumer confidence at freezing point

On the calendar today, we have a series of second-tier data prints from the region. Consumer confidence will be published in the Czech Republic and Poland. In both cases, the indicators are currently at record low levels, well below the pandemic years. However, no significant improvement can be expected for November either, given persistent inflation and energy prices. In Hungary, labour market data for September will be published. We expect wage growth of 16.7% YoY, basically the same pace as in August, slightly above market expectations.

On the political front, the main focus remains on Hungary. Yesterday, we heard unofficial reports from journalists that the European Commission will recommend freezing part of the cohesion funds with the condition of further reforms, but will also recommend adopting the Hungarian RRF plan. In the end, this gives more flexibility in further negotiations, but the key will be the Ecofin meeting in two weeks' time. Today the saga will continue in the European Parliament, which has on its agenda a vote on Hungary's rule-of-law progress, which, although non-binding, could make a lot of noise in the markets. There is also a V4 meeting scheduled in Slovakia, which the Hungarian PM is expected to attend.

The forint jumped up to 410 EUR/HUF after yesterday's news, which the market initially assessed as negative. But in our view, it mitigates the risk that Hungary could lose some money and opens up room for longer negotiations. Hence, we expect the forint to correct down again today closer to 400 EUR/HUF. The potential headlines from the EP meeting, which already caused considerable pain in the FX market last week, are a risk.

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