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FX

FX Daily: EMFX ending the year on a strong footing

EM currencies are generally ending the year on a strong footing – enjoying the benefits of lower core policy rates, a modestly weaker dollar and many offering high carry. There is a lot of focus on the renminbi at the moment and whether China's \$1tr trade surplus will drive the renminbi much stronger. For today, the focus is on US jobs and eurozone PMIs



📉 USD: Two jobs reports for the price of one

The highlight of today's session will be the 1430CET release of the delayed NFP jobs report. We will receive job hiring updates for both October and November. The consensus is for a modest +50k jobs increase for November and a rise in the unemployment rate to 4.5%. There will be no unemployment rate for October. Numbers in line with consensus will not have too much bearing on the Fed policy debate, where the market is close to pricing the next 25bp Fed cut by April and a further one by September. We do note, however, that US money markets have fallen after the Fed announced its generous T-bill buying plans last week, and that is allowing

three-month dollar hedging costs to drop to levels last seen in September 2022. There's also US October retail sales data today and the S&P PMIs. These look like an unlikely source of dollar volatility.

Away from the dollar, we have seen some strong gains for EM currencies. There is a lot of focus currently on the renminbi as USD/CNH approaches 7.00 – this despite some [very disappointing Chinese activity data this week](#). Interest in the renminbi has been rekindled after Chinese November trade data showed that China had already amassed a \$1tr trade surplus in the first 11 months of the year. The presumption is that Chinese exporters are waiting for better levels to sell their FX earnings. Yet a debate is emerging about whether local authorities should allow a stronger renminbi to rebalance the local economy away from exports and towards stronger domestic demand. And in fact, we are now seeing an extremely rare setup of the People's Bank of China (PBoC) fixing USD/CNY higher than model-based estimates for the fixing. In the last three years, in particular, the PBoC has been fixing USD/CNY lower than model-based estimates. Our Greater China economist, Lynn Song, believes the [PBoC will not be rushed](#) into accepting a much stronger renminbi, but pressure could build in 2026 – especially if we are correct with our house call for two more Fed cuts and a slightly weaker dollar.

We mention the renminbi because it sets the tone for EMFX in general. We noted yesterday that big EMFX pairs like USD/MXN and USD/ZAR were under decent downside pressure. Expect more interest in the rand as a proxy-renminbi play, as well as the strong local story we discussed in our [2026 FX outlook](#).

Strong interest in EM is normally a mild dollar negative. And with seasonal factors in play, we favour some mild dollar weakening into year-end as long as the NFP data does not surprise heavily on the upside. Below 98.00, DXY could edge to 97.80. To the upside, 98.80 looks intraday resistance.

Chris Turner

↑ **EUR: Focus on the PMIs**

Ahead of Thursday's ECB meeting, the focus today will be on the French, German and eurozone PMIs. After some encouraging [industrial production data yesterday](#), the hope is that we can see some further pick-up in European industrial confidence. Lower energy prices must certainly be helping, as well as possible confirmation today that the EU is delaying the phasing out of the combustion engine. Lower energy prices mean that the eurozone's terms of trade – export relative to import prices – are closing in on the best levels seen over the last four years. This is a clean euro positive.

1.1720/25 could prove the intraday support level for EUR/USD should NFPs come in strong, but a move through 1.1780 could open up 1.1800/1820.

Elsewhere, today's UK private sector wage data should allow the Bank of England to cut rates on Thursday. We mentioned extremely short sterling positioning yesterday. Late Wednesday evening, we will receive the next report on speculative positions as of 2 December – i.e. after the Budget. That will indicate whether any/much of that positioning was reduced as we now head into Thursday's BoE event risk.

Chris Turner

↓ **HUF: Risk is building on the dovish side**

The National Bank of Hungary is very likely to leave rates unchanged at 6.50% today. The main focus will be on the central bank's new forecast and forward guidance. The revisions to the GDP and inflation forecasts for 2025 will be minor, with only slight downward adjustments. More interesting is the impact of the extended and expanded price shield measures, as well as the increased fiscal targets, on the outlook for 2026 and beyond. On top of that, a stronger forint and lower energy prices are changing the landscape, too. Overall, we anticipate a reduced 2026 inflation forecast and a potential upward revision to the 2027 inflation projection driven by base effects. On the GDP outlook, a minor reduction to the 2026 forecast is possible. The full September Inflation Report will be released on 18 December.

The market remains on the hawkish side with almost three rate cuts priced in overall and a terminal rate around 5.80%. The market is used to a hawkish tone from the central bank, and therefore we see risk on the dovish side. The market will look for signs of whether the central bank is open to thinking about rate cuts next year. EUR/HUF stabilised in the 384-385 range yesterday but given our view on rates, the risk of a weaker forint today is high. If the NBH indicates a shift in thinking, we will likely test the 386 levels.

Frantisek Taborsky

→ **CZK: The new government brings mixed news for the crown**

Yesterday's government appointments brought up several headlines on the topics we discussed here yesterday – the state budget for next year and subsidies for household energy prices. The newly appointed Minister of Finance said that details of the new budget will be discussed at a cabinet meeting today, but the new government is committed to keeping the public deficit "safely" below 3% of GDP. The state budget for next year will be known in the coming days or weeks, but the Czech Republic will certainly work with a provisional budget in January. However, we see yesterday's headlines as positive compared to how poorly the long end of the curve has been traded since the elections due to market concerns about a higher deficit.

The Minister of Industry also confirmed earlier speculation that the government will discuss subsidies for the regulated component of electricity prices for households today, which should

lead to a 10% price cut in January. Together with the reduction in the market component of the price, headline inflation should fall below the central bank's 2% target in our view.

We see this as mixed news for the CZK. While the absence of fiscal easing is positive news for FX, lower inflation and a higher chance of rate cuts from the CNB are negative. Rates have seen only limited reaction, and for now the 24,300-350 range seems fair to us. However, in January, when liquidity returns to the market, we could see lower rate pressure on the koruna.

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