

FX Daily: Ending the year with a bang

This week presents one of the final opportunities of the year for some significant moves in FX markets, as a whole host of developed and emerging market central banks hold meetings. So far, it has been a good year for the US dollar, the Canadian dollar and the Chinese renminbi. Expect these trends to largely continue - especially the strong US dollar



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USD: Hawkish Fed to keep the dollar supported

As our team discusses in our [Federal Reserve preview](#), Wednesday's FOMC meeting should see the Fed shift its stance on inflation and announce a faster pace of tapering of its bond purchases. We are also particularly interested in the Fed Dot Plots, which we believe turned the bearish dollar trend around in June this year. Assuming the Fed does shift to a median expectation of two hikes in 2022, we would expect US money market rates to push higher again, taking the dollar with it.

This comes at a time when the US S&P 500 index is sitting at its highs of the year. Clearly, the pull of other asset classes, including cash, is not strong enough to keep equity investors sidelined for long. Washington's stance regarding lockdowns - having one of the highest bars to jump in justifying restrictions - also seems to be generating a wedge in US equity returns over say, Europe.

It is probably a consensus view now, but we think nearly three weeks of consolidation have seen the dollar correct from its overbought levels in late November and a hawkish Fed can be the catalyst for pushing DXY to new highs for the year.

⬇️ EUR: Unlikely to get much support from the ECB

Our team's [ECB preview](#) highlights some of the challenges the central bank faces at Thursday's meeting. One of which will be exiting the emergency PEPP bond-buying programme without causing too much disruption to European - especially peripheral - bond markets. The core outcome, however, should be the ECB wanting to keep all its options open into 2022. This will stand in stark contrast to the Fed where there now seems more political pressure to rein in super-loose monetary policy.

1.1180-1.1380 has been the EUR/USD range for a while now and this week's combination of meetings could well be the [catalyst for a push to new lows for the year](#).

In Europe, this week also sees policy rate meetings in Switzerland, Norway and Hungary. The Swiss National Bank has struggled to rein in Swiss franc strength this year and it would seem unlikely it has any aces up its sleeve at Thursday's meeting to fight the franc. Norges Bank should remain hawkish - looking for 100bp of tightening next year - and the Norwegian krone remains one of our preferred currency choices.

And in Hungary, a benchmark rate hike and some liquidity management activity that could drive HUF implied yields higher into year-end could give the forint a little more support. The National Bank of Hungary meets tomorrow.

➡️ GBP: Clinging on

Sterling has come under a little more pressure over the last week on the back of Omicron restrictions, some softer activity data in October and perhaps some political risk premium going into the pound as the press sink their teeth into the government. Naturally Omicron has also prompted a re-pricing of the Bank of England policy meeting this week, where we think the Bank will want to keep its options open ahead of a [possible hike in February](#).

GBP is just about holding at a decent support level in cable at 1.3180/3200 - but could prove vulnerable to dollar strength this week. EUR/GBP resistance at 0.8600 might have longer shelf-life than the cable support level and it will certainly be interesting to see whether the BoE takes any comfort from what should be a hawkish Fed meeting.

⬆️ NOK: Gas-powered rally resumes

European natural gas prices are creeping back towards the highs seen in early October. Part of the correction lower through October was driven by the assumption that Gazprom would come to the rescue with increased supply. Given the tension in eastern Ukraine, that extra Russian supply (i.e. more than contracted) seems unlikely now and what seems like continued strong Asian demand for LNG is keeping gas prices bid.

Russia and Norway are the biggest exporters of European gas - and both have rate meetings this week, too. Here, the Central Bank of Russia is expected to hike rates 100bp to 8.50%. Despite geopolitical tension, it seems the energy-exporting currencies of Russia and Norway can continue

to perform well, while the energy importers of Japan and Turkey - the latter facing a potential rate cut on Thursday - remain vulnerable.

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