

## FX Daily: EUR/USD drop is not overdone

A good share of this week's drop in EUR/USD was justified by the widening USD-EUR short-term rate differential and the pair remains slightly overvalued in our short-term fair value model. We expect the dollar to remain generally supported today, and we'll keep an eye on EUR/GBP to see whether any Brexit risk premium starts to emerge



### **USD: Further room to consolidate, commodity FX in trouble**

The dollar consolidated its post-CPI gains yesterday as a national holiday in the US kept volatility in major crosses contained. The widest moves were registered in commodity currencies, with \$ bloc currencies still discounting an unsupportive risk environment (the higher perceived risk of Russia invading Ukraine likely contributing) and also signs of weakness in oil prices. Here, the mounting speculation that the US may intervene to ease the rise in energy prices clearly represents a material risk factor for commodity currencies.

We discussed in yesterday's FX Daily how the breach of the 6% barrier has made inflation a more political topic. In this sense, the recent good performance of the dollar is likely a welcome development in Washington, although it is clear that (unlike under Trump) currency-related comments are quite uncommon material for the Biden administration.

Today, the US data calendar includes the University of Michigan survey results for November. The

main sentiment indicator is expected to rise from a month ago, although the market impact should be quite contained. We suspect that the market still has to fully process Wednesday's high inflation numbers and with a clear bias towards more hawkish Fed expectations we think the dollar can stay supported into the weekend.

## ↓ EUR: Downside risk remains material

After breaking below 1.1500, we think the market sentiment on EUR/USD is skewed towards the downside, both from a technical perspective and from a fundamental one given the widening USD-EUR rate differential. Interestingly, despite this week's large drop in EUR/USD, the pair remains slightly overvalued (by 0.50%) according to our short-term fair value model: this is because the main driver of EUR/USD fair value (the short-term rate differential) has widened significantly, "justifying" a good share of the EUR/USD drop.

We think we could see EUR/USD extend losses to the 1.1300 level in November, before some USD-negative seasonality comes to the rescue in December.

Today, the EUR should be untouched by eurozone-wide industrial production data for September. On the ECB side, keep an eye on a speech by Chief Economist Philip Lane.

## → GBP: Brexit isn't really back for sterling

After a set of slightly softer than expected growth figures yesterday, the UK data calendar is set to remain rather quiet until labour market numbers are released next Tuesday. In the meantime, Brexit is creeping back and likely to remain a central theme in the coming days as the UK is reportedly inching closer to using Article 16 to suspend parts of the Northern Ireland protocol. We discuss this in detail in ["Brexit is back"](#). From an FX standpoint, we think the risks for the pound (which is currently showing no political risk premium) are not as high as in 2018/19 when the risk of no-deal Brexit triggered extended periods of GBP weakness.

Given the imminence of Bank of England tightening, we think EUR/GBP will make its way back to 0.8500 by year-end. In the shorter-run, we'll keep an eye on whether the pair will hold below the 0.8580 200-day moving average resistance in spite of intensifying Brexit noise.

## ↓ SEK: Shifting momentum

The rally in the Swedish krona in late October has been completely wiped out in November, as EUR/SEK briefly traded above 10.00 again yesterday and is currently around 9.9800. As discussed in [this note from 20 October](#), we are sceptical that SEK will put in a strong performance in November, and we remain of the view that the Riksbank will push back against the market's hawkish bets at its 25 November rate announcement.

Accordingly, we think the balance of risks is set to remain tilted to the upside for EUR/SEK until the end of November. A seasonal tendency of SEK to appreciate in December may however bring back the pair marginally below 10.00 at the end of the year.

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