

## FX Daily: Euro remains the weakest link

The dollar starts the week in mixed fashion. USD/JPY is trading at a new corrective low, while EUR/USD continues to lick its wounds after a torrid session on Friday. The highlight of this week's data calendar will be the November US jobs report on Friday; there are also central bank policy meetings in Canada and Poland



The Fed's Jerome Powell

### ➔ USD: Powell speech provides some support

The dollar turned a little higher on Friday - largely led by the drop in European currencies after investors latched onto some dovish comments from ECB officials. Also supporting the dollar later in the day, however, were [comments from Fed Chair, Jay Powell](#). He was much more equivocal than his colleague, Christopher Waller, who earlier in the week had signalled that the inflation battle was nearly won. Indeed, Powell's comments left in the prospects of further rate hikes - which very few in the market believe will materialise.

Against this backdrop will the dollar trade on US data this week. Given the blackout period ahead of the FOMC meeting on December 13th, there will be no Fed speakers this week. Instead, the focus will be on some quite important data. Beyond today's Durable Goods Orders, tomorrow sees the release of US services ISM and the JOLTS job opening data. Do job openings correct back lower and suggest a better balance in the US labour market - a mild dollar negative? Wednesday then sees the discredited ADP jobs data ahead of Thursday's initial claims.

But the main event of the week is the November NFP report on Friday. Consensus expects a modest +180k, an unchanged unemployment rate and steady average earnings. Given a propensity for investors to put money to work outside of the dollar, we think a consensus outcome would be a mild dollar negative. We think it would really have to be a strong number to put the idea of another Fed rate hike back on the table.

We favour DXY trading a 103-104 range through the week and suspect that investors will have a bias to sell in the 104.00/104.20 area.

Chris Turner

## ➔ EUR: ECB doves are landing punches

EUR/USD suffered quite a sharp setback on Friday after Bank of France Governor, Francois Villeroy de Galhau, said that barring shocks, the ECB tightening cycle was over and that the ECB would consider the question of easing in 2024. Money markets price the first full ECB cut by next April - marginally earlier than the Fed. This was always the risk that the ECB would be cutting at a similar magnitude to the Fed in 2024 - meaning that EUR/USD did not need to rally much. That is why our EUR/USD quarterly profile in 2024 is still quite modest - 1.10 for 2Q24, 1.15 for 4Q24 and why we have favoured short positions in cross rates like EUR/AUD - which has fallen 2.5% over the last couple of weeks.

This week sees some second-tier eurozone data (Sentix, retail sales, final 3Q23 GDP revisions) but also ECB speakers including President Christine Lagarde at 15CET today. She will probably try to keep the peace between the hawks and the doves by suggesting a further rate hike is still on the table.

1.0825 now looks good intra-day support for EUR/USD. We suspect that it would have to take a very strong payrolls report to see EUR/USD trade 1.0700 again. But then the euro can remain soft on the crosses for the time being.

Also today, look out for some updates on Riksbank thinking; the minutes of its November meeting are released at 0930CET. We described this meeting as a [hawkish hold](#). This is followed by a speech from Riksbank's Anna Breman at 11CET.

Chris Turner

## ➔ GBP: ECB vs. BoE story dominates

Dovish commentary from the ECB has now seen investors pricing ECB rate cuts several months ahead of the Bank of England (BoE) next year and expectations build of a deeper easing cycle in the Eurozone than in the UK. We disagree with that pricing and think the BoE will deliver more hikes than the ECB next year. This probably means that EUR/GBP does not need to spend too much time below 0.8600. Indeed, 0.8500 represents very strong support and we remain happy with our forecasts of EUR/GBP edging up to the 0.88/0.90 area into next year.

The UK data calendar is very quiet this week, with just Friday's release on inflation expectations of note. The bigger driver of EUR/GBP this week will be any ECB pushback against dovish pricing of their 2024 policy cycle.

Chris Turner

## 📈 CEE: Rates should drive FX to further gains

This week we start today in the Czech Republic, where wage numbers, key to the central bank, will be released. Markets expect real wages to fall 0.7% YoY in Q3, while the central bank expects 1.0% YoY. The National Bank of Poland (NBP) has a press conference scheduled today after the MPC published a statement on Friday on the incoming government's intention to suspend the governor. On Wednesday and Thursday, we will have some hard economic data across the region including industrial production or retail sales in the Czech Republic, Hungary and Romania.

Also on Wednesday, we will see a decision from the NBP. We expect interest rates to be unchanged in line with market expectations. So the main event here will be the press conference on Thursday. On Friday, we will see inflation numbers in Hungary, where we expect another jump down from 9.9% to 7.9% YoY, slightly below market expectations. Also on Friday, S&P will publish a rating review of Hungary. The agency cut the rating down earlier this year, so we can't expect much new here.

CEE FX remains volatile following the global story. However, if EUR/USD stabilises this week, rates should take over as the main driver again. Here, the picture for CEE remains positive. With core rates falling and lower beta of local rates in the region, interest rate differentials have improved in favour of CEE across the board. We expect more gains from PLN, which should be supported by the NBP's hawkish turn. EUR/PLN briefly touched lows of 4.320 on Friday, and we expect further testing of lower levels later.

EUR/HUF, despite wild moves last week, should head lower after HUF rates stabilised. On the other hand, we expect EUR/CZK to move up towards 24.40 after the dovish data expected this week.

Frantisek Taborsky

### Authors

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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