

FX Daily: European pushback supports local currencies

As the dust settles after a furious period for central bank meetings we are left to conclude that European policymakers have chosen to push back more than the Fed when it comes to what the market prices for 2024 rate cuts. For today, the focus will be on flash PMI business survey readings on both sides of the Atlantic along with Fed commentary



⬇️ USD: Focus on The Fed's Williams' TV appearance at 1430CET

After Wednesday night's [dovish turn from the Fed](#), yesterday saw four rate meetings in Europe. We had a surprise hike in Norway, two (Eurozone and the UK) saw central bankers pushing back against aggressive easing expectations, and the fourth, the Swiss National Bank effectively declared that its battle against inflation was won. This European pushback triggered some impressive gains in local currencies against the dollar, where USD/NOK was at one stage down 3% on the day and EUR/USD marched to 1.10. The Fed's surprising shift has also provided a boon to global risk assets. As we discussed in our [2024 FX outlook](#), the prospect of lower US rates can release a tide of portfolio capital and refloat many unloved currencies.

Where do we go from here? The market will want to hear confirmation that the Fed debate has moved on to the timing of the first rate cut. Fed centrist, John Williams, appears on CNBC today at 1430CET. Expect him to be grilled on this very subject. It is hard to see the market pricing in more

than the 150bp of rate cuts it has already for 2024 - especially since yesterday's US retail sales and jobless claims came in on the strong side. Yet, should Williams mention rate cuts, we suspect the dollar will stay on the soft side today.

In terms of local data, the market is expecting some decent US industrial production data for December and will assess any slowdown in the flash PMI readings for the month. The DXY, which is weighted 75% against European currencies, sold off 0.9% yesterday and is down 2% on the week. 102.55/65 is now well-defined resistance and 101 looks the near-term target.

Chris Turner

➔ EUR: 1.10/USD could be sticky

EUR/USD briefly traded over 1.10 yesterday as ECB President Christine Lagarde did a good job of explaining why [rate cuts were not on the table](#). Two year EUR swap rates moved up around 5bp after the press conference - probably not enough to justify the big spike in EUR/USD to 1.10, but a positive factor nonetheless.

We are tempted to say that EUR/USD does not go too much further above 1.10 now. And let's see how it copes with today's release of flash French, German and eurozone PMIs. Soft releases here hit the euro through the autumn, and while expectations are for stable readings today - these all largely remain in contractionary territory. Our bias is that EUR/USD hangs around this 1.10 level into year-end. Yet December is seasonally a weak month for the dollar and trends have a habit of extending in thin year-end markets.

Chris Turner

⬆ GBP: BoE ladles thin gruel to the doves

Of the recent central bank meetings, the Bank of England (BoE) probably offered the most pushback against dovish expectations. [There was nothing in their statement](#) to encourage dovish expectations for 2024, and Dec 2024 Sonia 3m interest rate futures lost about 10 ticks after the meeting.

For today, look out for the flash UK PMIs for December. The important services index is holding its head above the 50 break-even area and another reading near 51 might prove a little supportive to the pound. 1.2820/2850 is decent resistance for cable above which 1.30 could be the surprise package for Christmas.

Chris Turner

⬇ CHF: SNB stops selling FX

EUR/CHF is higher after [yesterday's Swiss National Bank \(SNB\) press conference](#), but we are disappointed it is not higher still. Having sold almost exactly CHF100bn of FX since the third quarter of last year, the SNB effectively said yesterday that the policy of exclusively selling FX was over. This makes a lot of sense. Take a look at the SNB's inflation forecasts out to the end of 2026 and you will see inflation at or mostly below 2% over the entire horizon. The SNB can argue that the inflation battle is won and it no longer has a priority of keeping the real CHF stable through nominal CHF appreciation and FX sales.

This looks to be quite a big deal and we think that merits a higher EUR/CHF from current levels. We could quite easily see EUR/CHF reverting to 0.9650 over the coming weeks.

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