

## FX Daily: European risk re-priced

Pandemic-related risk premia have made an unwelcome return to European FX markets and may keep the Euro vulnerable this week. Away from Thursday's US Thanksgiving holiday, there is plenty going on this week with further rate hikes expected in Korea and New Zealand, plus an important Riksbank meeting



Hungarian Prime Minister Viktor Orban (L), European Commission President Ursula von der Leyen (C) and Italian Prime Minister Giuseppe Conte (R) at the start of a two days face-to-face EU summit, in Brussels, Belgium

Source: Shutterstock

### USD: Continued focus on the Fed

In a week in which the European focus has switched back to the pandemic, there is some comfort to be taken from the fact that the top story for US markets should remain the Fed. Here, President Biden is this week expected to announce the next Fed Chair after Jay Powell's four-year term expires next February. Despite strong support in some quarters, Lael Brainard is still seen as a (very dovish) outside bet and it would be a big surprise were Powell not appointed for a further four-year term.

In addition, Wednesday sees the release of the minutes of the November 3rd FOMC meeting. Lacking new economic projections, the November meeting was not as market-moving as those of June and September, despite the start of tapering. Yet the minutes should show a healthy debate on inflation - and given what should be a continued strong run of US data - will keep risks of quicker tapering and earlier Fed tightening alive.

DXY is currently pressing resistance at 96.10 and has not quite taken out the recent 96.24 higher. Yet stronger growth momentum in the US anyway, plus new lockdowns in Europe, suggests the DXY could well break to new highs of the year this week. DXY could advance another 1.6% to the 97.70 area were resistance at 96.10/24 to be cleared.

## ⬇ EUR: Pandemic-repricing cements trends

The trade-weighted Euro was already on the lows for the year when news hit on Friday that Austria would be going back into a full lock-down and that Germany could not rule one out. The news triggered a break below 1.0500 in EUR/CHF - a key barometer of European risk. European daily case rates do not make [good viewing](#) currently, with Austria, the Czech Republic and Hungary currently struggling the most.

The news cements the key trend in EUR/USD, where the Fed is preparing to normalise monetary policy while the ECB will lag. The ECB had more cause to lag anyway since Eurozone inflation was looking set to turn lower far quicker in 2022 than inflation in the US - but renewed lockdowns and pressure on the service sector in Europe now provide the ECB with many more reasons to go slow - and perhaps even extend the PEPP bond-buying scheme after March, if the pandemic is continuing.

EUR/USD traded to a new low of the year at 1.1250 on Friday and remains vulnerable. We think it is oversold, but in no way would we describe it as cheap. And breaking clear of 1.1250 would clear a path towards 1.1170 and then 1.1100. Resistance at 1.1325 and then 1.1375/85.

Elsewhere, EUR/CHF continues to consolidate under 1.05. With inflation still low in Switzerland and the trade-weighted CHF on its highs, we doubt the SNB is ready to let EUR/CHF drop a lot lower. The CE3 currencies look more vulnerable, hit by both the drop in EUR/USD and now Covid-19 case numbers worsening. All three of PLN, CZK and HUF look as though they could weaken further.

## ➡ GBP: So far, so good for GBP

It may be only a matter of weeks before higher case numbers in Europe impact the UK, but for the time being the view is holding that higher vaccination rates and greater herd immunity positions the UK as slightly more resilient to the current wave of cases. EUR/GBP looks to be sitting comfortably below 0.8400 and could easily glide down towards the 0.8305/15 area this week. GBP inputs this week include November PMI data and several BoE speakers, including Governor Andrew Bailey.

Cable looks vulnerable to the stronger dollar and 1.34-1.35 may well be the range for the early part of the week.

## ⬆ ILS: Bol focus on intervention.

The Bank of Israel (BoI) meets to set interest rates today. No analyst expects a hike in the BoI base rate, but the BoI will have to acknowledge the recovering economy and CPI running above 2%. More important will be what the BoI says about FX intervention. Over the last month it has appeared to step back from the market after acquiring the \$30bn in FX reserves it had planned in January.

We very much doubt that the BoI will step away from USD/ILS completely, but the ILS is seen as

somewhat of a safe haven currency in the EM space (its sovereign debt certainly is) and USD/ILS looks set to trade around the 3.05-3.15 area for the time being.

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