FX Daily: Extra dose of dollar weakness

The dollar is inching lower again this morning and we think the ongoing correction could extend a bit more as optimism on US-China relations appears to be lifting sentiment. That said, a broader and sustained USD downtrend on the back of the China and/or Fed pivot story appears premature. Today, keep an eye on the ZEW and UK pre-Budget headlines

Asian equities are rallying this morning off the back of a meeting between Joe Biden and Xi Jinping at the G20 meeting yesterday

USD: A bit more pain

The dollar showed tentative signs of recovery yesterday, but appears to be lacking any strong support at the moment. While we don't buy the one-way traffic, and the USD-bearish narrative in the longer run, there may be extra downside room for the greenback this week.

With the US calendar being rather light, the two main drivers of global sentiment are China and Fed speakers. With respect to the first, there are two aspects to consider: data and diplomatic talks. As discussed here, Chinese industrial production and fixed asset growth numbers for October were in line with consensus, but the retail sales drop (-0.5% year-on-year) came as a surprise. Still, retail sales are highly sensitive to Covid restrictions, and the recent progress towards more flexible rules suggests room for recovery. Asian equities are rallying this morning, and this appears to be due to general optimism after a long meeting between US President Joe Biden and Chinese

President Xi Jinping at the G20 meeting yesterday, which was followed by mildly encouraging remarks about diplomatic cooperation.

We still suspect it is too early to point at China as the key driver for a broader recovery in risk sentiment (and dollar descent), considering the still sizeable economic challenges affecting China going beyond its Covid policy (e.g. real estate fragility, slowing global demand).

On the Fed front, we heard from both sides of the hawk-dove spectrum yesterday. The hawk Christopher Waller dismissed the deceleration in core inflation as just "one data point" and that more data was needed to conclude tightening should slow. The dove Lael Brainard also signalled there is more work to do, but explicitly said the Fed will likely shift to slower rate increases soon. It appears that the FX market was primarily affected by Waller's remark, with the ultra-Fed-sensitive yen dropping around 1% yesterday. For now, we read recent Fedspeak as further indication that a bearish dollar call on the back of Fed dovish pivot bets still appears premature.

Today, we'll hear from the Fed's Patrick Harker, while the data calendar includes October Empire Manufacturing and PPI figures. Some extra near-term USD weakness is possible, but we suspect we are reaching the bottom of the recent downtrend.

Francesco Pesole

EUR: Eyes on ZEW

November's ZEW survey is the main release to watch in the eurozone's calendar today, and expectations are for a generalised improvement on the back of lower energy prices. Later this morning, it will be worth watching for any revision in the eurozone's third-quarter GDP numbers. We'll also hear from the ECB's Francois Villeroy.

EUR/USD strength is largely a USD story, and any support to the euro appears largely driven by energy prices, if anything. We could see another leg higher in the pair over the coming days, and 1.0500 could be at reach, even if we expect a relatively fast descent over the winter.

Francesco Pesole

GBP: More Budget-related headlines

Ahead of the Autumn Budget announcement in the UK this Thursday, markets are being flooded with reports about which measures will be announced. Chancellor Jeremy Hunt is now widely expected to deliver a 40% windfall tax on energy companies' excess profits, while it's been reported that the minimum wage will be raised from £9.50 to £10.40 an hour. Expect more headlines – and some sterling reaction – today.

On the data front, jobs numbers were released in the UK this morning. As expected, the unemployment rate edged higher but was mostly driven by hiring freezes rather than rising redundancies. Reduced labour supply remains a bigger concern, especially as long-term sickness numbers continue to rise. Our economics team continues to expect a 50bp hike by the Bank of England in December.

Francesco Pesole

SEK: Riksbank may go for 75bp after all

The Swedish inflation report this morning was a mixed bag. Headline inflation rose less than expected (from 10.8% to 10.9% YoY), CPIF inflation surprisingly declined (from 9.7% to 9.3%) but core CPIF rose (7.4% to 7.9%). Ultimately, the latter may matter more than the others for the Riksbank, which announces policy on 24 November, and that may tilt the balance towards a 75bp rate hike.

Implications for the krona should however remain quite limited – today's muted FX reaction to CPI was a case in point. We think SEK remains in a disadvantageous position compared to other procyclical currencies to benefit from an improvement in risk sentiment given the still clouded European outlook. We see room for a return toward 10.90/11.00 in EUR/SEK in the near term.

Francesco Pesole

Authors

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com