

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.