FX Daily: Fed to keep the dollar pressured

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USD: FOMC should not interrupt the dollar bear trend

The dollar continues to sit near the lows of the year, and we doubt it will get any support from today's FOMC meeting. Our US team provides a full preview here. Central to the current dollar decline is the view that; a) a recovery will be forthcoming and that the Fed will be successful in lifting inflation and b) the Fed will keep rates on the floor well into 2023. We do not expect the Fed's new projections to challenge this narrative (growth expectations slightly raised, no significant adjustments in Dot Plots of expected Fed Funds) and the focus will be on any clarification of bond purchases – be that forward guidance or any extension of duration in asset purchases in an effort to keep a lid on yields at the long end of the US Treasury curve. We do not see anything dollar positive emerging from the Fed and the current benign dollar decline could extend were Congress to make progress on a new slimmed down $748bn stimulus bill. DXY can drift down to the 90 area.

EUR: Focus on the PMIs today

Today sees the flash PMIs for the eurozone, Germany and France. Little improvement is expected in the services sector, while the manufacturing sector should still be supportive. The soft dollar environment is keeping EUR/USD bid, but the extension of lockdowns in Germany and across Europe suggest bulls should tread carefully. EUR/USD can drift to 1.2230/50 if there are no nasty surprises from the Fed (unlikely). Any progress on Brexit is also a EUR/USD positive.

GBP: Trial by twitter

GBP remains beholden to the latest tweets – the most recent seemingly pointing towards a greater chance of a deal. Thin December markets and some big technical levels in cable at 1.3500/40 warn of strong gains to 1.37 on any concrete signs of progress.

TRY: CBT should re-iterate its hawkishness today

The Central Bank of Turkey today releases is 2021 Monetary and Currency Policy document. This should reiterate the hawkish message provided at the November MPC meeting, i.e. that the CBT will maintain a tight stance and avoid early easing, and remain committed to disinflation. Indeed, the CBT could point to a December rate hike given the higher than expected CPI in November. Turkish asset markets have also found some support this week after it emerged that US sanctions against Turkey for the S-400 Russian missile purchase were limited to the defence sector and not to the broader Turkish economy. We see USD/TRY at 7.60 in one month and 7.20 in three months on the back of a hawkish CBT & implied TRY yields of 14%+.

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