

FX Daily: Fed to keep the dollar pressured

We don't see anything dollar positive emerging from the Federal Reserve today and the current benign dollar decline could extend were Congress to make progress on a new slimmed down \$748bn stimulus bill



Source: Shutterstock

↓ 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 its 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%+.

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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>.