

## FX Daily: The dollar's fighting season

The US dollar is still battling December seasonality, which is leading it to weaker levels. However, the market will mainly focus on next week rather than going in one direction. The European Commission may release a new assessment of Hungary



### ➔ USD: Still fighting seasonal trends

Global risk sentiment recovered yesterday after a few grim sessions for global equities, and the dollar faced some broad-based depreciation. As highlighted in our recent FX commentaries, the dollar tends to be seasonally weak in December, so this is a month of damage limitation for dollar bulls like ourselves.

Price action in G10 currencies has been quite mixed, with the best performers being AUD, CHF and CAD yesterday. Among the pro-cyclical currencies, we continue to think that CAD has a better chance of outperforming next year thanks to limited exposure to China and Europe's economic woes while being positively correlated to a rise in energy prices, which is our commodity team's baseline scenario.

The US calendar includes PPI and University of Michigan survey numbers today. With markets being focused on various gauges of inflation, expect dollar sensitivity to these data releases.

The dollar could stabilise around current levels as markets gear up for the last week of action (Fed, ECB and BoE meetings) of 2022. DXY may stay around 104.50/105.00 today.

*Francesco Pesole*

## ➔ EUR: Rally above 1.06 would be premature

Markets are pricing in around 55bp of tightening ahead of the ECB meeting next week, and with no more speakers before the rate announcement and no key data releases except for the ZEW surveys on Tuesday, we doubt that rate expectations will move much in the coming days.

Our base case is still that EUR/USD will struggle to trade sustainably above 1.0600, and is mostly facing downside risks into year-end as the dollar could regain some ground on global risk uncertainty and rebounding energy prices.

*Francesco Pesole*

## ➔ GBP: Keeping an eye on key technical levels

The only release to highlight in the UK calendar today is the Bank of England's inflation attitude survey. Still, markets appear to have cemented their expectations around a 50bp rate hike by the BoE next week, and this may not change drastically before the policy announcement.

GBP/USD could hover around 1.22 today, but risks are tilted to the 1.2126 200-day Moving Average being tested soon, in our view. EUR/GBP is trading around the 0.8630 100-day MA, and while we have less of a clear directional call on this pair in the short term, we see upside risks in the longer run.

*Francesco Pesole*

## ➔ CEE: European commission may issue new assessment on Hungary

Another tough week in the CEE region is behind us, but Friday has a lot to offer. Apart from the global story, we will be watching the market reaction to yesterday's National Bank of Poland press conference, which was not as dovish as expected. Governor Glapinsky said that the end of the hiking cycle has not yet been decided. On the other hand, he also mentioned falling inflation and a return to single digits numbers. That said, we believe the cycle has been closed and we do expect higher inflation than the central bank.

Today the economic calendar is thin in the region, but we may hear more headlines from the European Commission regarding Hungary. An updated European Commission assessment could be released today, which should take into account the newly passed laws on the Hungarian side and thus be more in line with EU requirements. This follows the Commission's follow-up to Tuesday's Ecofin meeting and the member countries that made the request. The outcome of the assessment should be positive for Hungary and for the markets, but there've been plenty of surprises so far in this story.

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