

FX Daily: FX market looking through geopolitical risk

The escalation in the Russia-Ukraine conflict had only a short-lived impact on FX, and safe-haven demand has rapidly faded. The balance of risks is shifting more to the upside for the dollar, also considering some positioning re-adjustment may have happened. In the UK, hot inflation should prevent a December BoE cut, and we retain a bearish EUR/GBP bias



Global markets have been shaken by a sudden escalation in the Russia-Ukraine conflict

USD: Ukraine news not boosting safe havens for now

Global markets have been shaken by a sudden escalation in the Russia-Ukraine conflict after Ukraine used US-supplied long-range missiles for a strike in Russian territory and Moscow lowered the threshold for response using nuclear weapons. So far, this has translated to some noise in the FX market, but no big moves. We suspect the dynamics in dollar crosses were partly still affected by the dollar's overbought positioning status, which may have contributed to curbing geopolitics-related gains. At the same time, the other two safe havens JPY and CHF only experienced brief and limited support yesterday. USD/JPY broke above 155.0 again this morning.

In other words, markets seem to be cautiously leaning towards a sanguine view on Ukraine,

meaning any further escalations should have a much deeper impact on FX. European currencies (excluding CHF) are inevitably the most vulnerable, whereas high-beta currencies that are geographically far from the conflict (like CAD or AUD) should only be affected indirectly through risk-off. The oversold JPY probably has the highest upside potential from an escalation.

The US calendar is still quiet and the only focus today will be on a few Fed speakers, including the dovish-leaning Barr and Cook and the more neutral Williams and Collins. An interesting development on the macro side, however, was yesterday's release of state payrolls, which allows us to calculate the actual impact of the hurricane on the soft October country-wide print (12k). Our US economist crunched the numbers and estimates that the payroll figure would have been around 121k without the hurricane and strike activities. We expect at least 100k of "technical" rebound in the November payroll print, which raises the bar for a hawkish surprise from the Fed.

We recently highlighted the potential for a positioning-driven dollar correction. With the recent increase in geopolitical risk, it appears that the risks for the dollar are now more balanced, and we may see less resistance to a fresh leg higher in the greenback.

Francesco Pesole

EUR: Wage data due today

ECB member Fabio Panetta made headlines yesterday with some dovish remarks. He is one if not the most vocal Governing Council doves, so no surprise there, although it's significant how he explicitly laid out the role that the ECB should have in supporting eurozone growth. We have a more dovish view on the ECB compared to market pricing exactly because we believe this shift in focus from inflation to growth will lead to faster easing in light of a stagnant activity picture.

Today, the ECB releases 3Q data for negotiated wages. This used to be a key input for policy decisions but has lost significance given the greater confidence in the disinflation path. A re-acceleration in wages from the 3.5% of 2Q can offer a counterargument for the hawks, but we suspect some pretty substantial surprise would be needed to heavily affect ECB pricing and the euro.

We had expected EUR/USD to find some short-term support, but we now see renewed downside risks given a still wide rate gap and geopolitical risks. Our expectation is that 1.050 can be tested again soon, and by the end of the year we can see a break lower.

Francesco Pesole

GBP: Inflation data confirms December cut unlikely

GBP/USD has broken past the 1.270 level this morning after a slightly hotter-than-expected UK CPI print for October. We know that the Bank of England's focus is on services inflation, so the rise in headline and core CPI to 2.3% and 3.3% is not really relevant. CPI services did accelerate from 4.9% to 5.0%, which is in line with the BoE and our own forecast. A lot of that acceleration is, however, down to components such as airfares and rents that the BoE deems less indicative of persistent inflation. Our economist's estimate of "core services" inflation saw a deceleration from 4.8% to 4.5% in October.

That is, however, still insufficient to prompt a cut in December, in our view. Even if there is another inflation print before the next BoE meeting, we would probably need a sharp slowdown in services

inflation to put a cut back on the table. Our house view is that services CPI will keep bouncing around 5% for the next four months and only turn decisively lower from 2Q25, when we expect the BoE to accelerate the pace of monetary easing.

We currently see the next BoE cut in February, which isn't fully priced in (19bp). We think there will be room for a dovish repricing to negatively affect sterling next year, but the policy gap with a dovish ECB will hardly be closed and we remain generally negative on EUR/GBP. For the short term, we stick with our call that the pair will move back below 0.830.

Francesco Pesole

HUF: Hawkishness with cracks

As expected, yesterday's National Bank of Hungary [meeting](#) did not bring any changes. The central bank tried to send a hawkish signal but did not commit too much. Of course, the main reason is the EUR/HUF level and the volatility of the Hungarian market. The initial market reaction suggested a stronger HUF, however the mention of one vote for a rate cut reversed the direction again and EUR/HUF ended the day higher above 408. As we've mentioned previously, much of the reason behind the FX weakness is not in the hands of NBH but is directed at the global story.

The pressure on FX, as in the rest of the CEE region, is here to stay for longer in our view. So NBH will just have to wait a longer. Rate cuts are of course postponed indefinitely regardless of dovish data from the economy. We believe EUR/HUF will be drawn further towards the 410 level and possibly move higher should global markets come under pressure. Until then, we will likely see NBH wait until next year and do nothing. At the same time, yesterday's escalation of the Ukraine-Russia conflict shows the vulnerability of the situation and clearly the divergence between Europe and the US after the election shows nothing positive for the CEE region which increases the risks of further selling here.

Frantisek Taborsky

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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 www.ing.com.