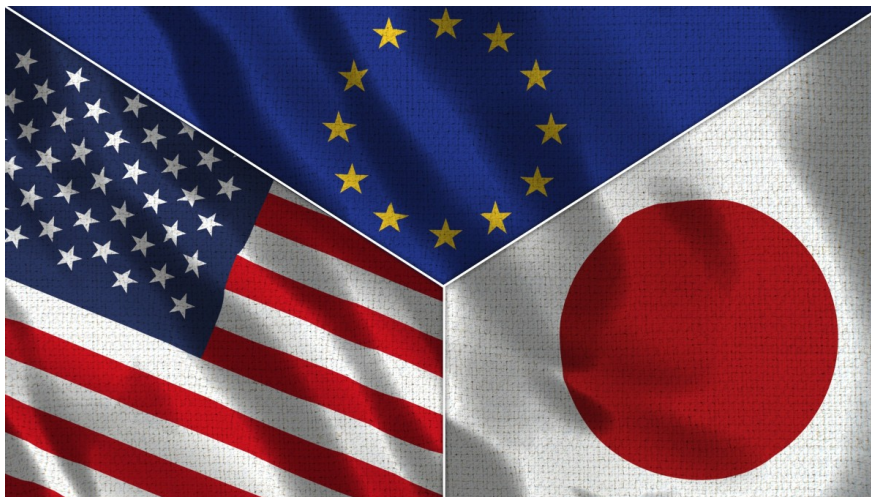


FX Daily: G3 December monetary policy in focus

The euro is recovering a little after its mini collapse on Friday. However, further eurozone confidence data this week could still spell trouble and tilt the market towards a 50bp ECB cut in December. In the US, the market is split on whether the Fed will cut next month after all and in Japan, fiscal stimulus is shifting expectations towards a BoJ rate hike



We're expecting 25bp moves from the Bank of Japan and the Federal Reserve in December - but the ECB's next move will be a narrower call

➔ USD: FOMC minutes and core PCE in focus this week

The DXY dollar index briefly traded above 108 on Friday, although this was primarily a euro rather than dollar-driven move. Recall the euro has by far the largest weight in the DXY at 58%. The dollar trend is a little more settled and news over the weekend confirms that Scott Bessent has been picked as the next US Treasury Secretary. We are not sure whether the recent bullish flattening in the US Treasury curve represents the market seeing him as a 'safe pair of hands', but he certainly does not sound like someone who will be pushing President-elect Donald Trump into weak dollar policy.

Looking ahead in this US Thanksgiving-shortened week, the highlights of the US data calendar will be Tuesday's release of the Federal Reserve's November FOMC minutes (where the central bank cut rates by 25bp) and Wednesday's release of the core PCE deflator for October. The latter is expected at a little sticky 0.3% month-on-month and will keep the market guessing over whether

the Fed will cut in December after all. Currently the market prices 14bp of a 25bp rate cut.

Currently, our team are still going for a 25bp Fed cut in December and combined with positioning and seasonal dollar weakness may now offer some headwinds to the DXY. Yet, as we [discussed on Friday](#), it looks like geopolitics and the diverging US-eurozone macro story will keep the dollar bid into year-end after all.

DXY could start to consolidate in a 106.50-107.50 range this week, but the bias remains higher.

Chris Turner

➔ EUR: 25bp or 50bp from the ECB is the story

Friday's soft eurozone PMI releases – especially the drop in the services component – hit the short-end of the region's rate market hard and took EUR/USD to the lowest levels since 2022. The view here remains there is no fiscal calvary coming in the eurozone and that the only way to address the current malaise is for the European Central Bank to cut rates more quickly than usual. The market now prices 37bp of a 50bp ECB cut in December and short-dated US;eurozone spreads remain very wide at 190bp.

In focus this week is more business confidence in Germany today. Here, we are surprised that the consensus on the Ifo expectations component (important for business investment) is relatively flat at 87.0 versus 87.3 in October. Any sharp downside fall here would suggest businesses are becoming more concerned about looming trading wars after all. Further updates on eurozone business and consumer confidence are released by the European Commission on Thursday. Also in the eurozone this week will be Friday's flash release of November CPI, where core inflation is unhelpfully expected to creep a little higher.

EUR/USD is having a decent bounce after what looked like an FX option barrier-triggered mini-collapse to 1.0335 on Friday. The trend very much remains bearish and we are wary of more extended EUR/USD losses into year-end despite supportive seasonal patterns. We suspect the coming weeks may be characterised by periods of shallow corrections and then marginal new lows. The current bounce may stall in the 1.0500/0550 area.

Chris Turner

⬆️ JPY: Fiscal-monetary policy mix moves more supportive

The Japanese yen is starting to show a little strength on the crosses. Helping that has been the shift in the fiscal-monetary policy mix. Driving the former has been local politics, where the Liberal Democratic Party (LDP) has had to bring the Democratic Party for the People (DPP) into the governing coalition and accede to the DPP's policy demands of an increase in the lower thresholds for income tax. Along with other measures, this is seen as a \$250bn fiscal stimulus package and is a reminder that no such package will be coming in Germany – at least until federal elections are held in late February.

At the margin, Japanese fiscal stimulus is encouraging the view that the Bank of Japan will hike in December after all. Nearly 15bp of a 25bp hike is now priced. ING expects a 25bp hike. Looser fiscal and tighter monetary policy is usually a supportive mix for a currency and should continue to pressure EUR/JPY, for example, lower. It may also help USD/JPY to withstand the strong dollar trend and a further period of consolidation in the 153.50-155.50 range may be due.

Chris Turner

📌 CEE: FX catching up with global EM trend

This week in the CEE region, the focus shifts to Poland with a big dose of data from the real economy and an inflation print at the end of the week. Today we see industrial production and wages in Poland and consumer confidence in the Czech Republic. Tomorrow, we'll also see retail sales in Poland, unemployment on Wednesday, and final GDP numbers on Thursday which should confirm the economy contracted in the third-quarter. Friday will also see final GDP data in the Czech Republic and Turkey.

The highlight of the week should be the release of November inflation in Poland on Friday. Our economists expect some decline from 5.0% to 4.6% year-on-year, mainly due to the base effect from last year created by fuel discounts. The month-on-month pace remains unchanged at 0.3%.

We maintain a bearish bias in CEE FX. EUR/USD has added pressure to CEE again after Friday's slide lower. As we discussed previously, we believe CEE has been lagging the emerging markets space since the US election and the last few days confirm our view of catching up with the global trend. We therefore see room for further weakness here. The main focus should remain on EUR/HUF, which closed near 412, the current highs, on Friday.

The market has taken back any expectations of additional steps from the National Bank of Hungary, but should EUR/HUF head higher, we can expect the rates and bonds market to follow again. The CZK has also come under pressure over the past two days and although EUR/CZK remains in the long-term range of 25.200-25.400, a further move higher could increase Czech National Bank interest ahead of the December meeting.

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