

## FX Daily: Germany's narrow escape from recession no help to the euro

Germany has dodged a technical recession but it's not enough to reverse the market's scepticism about the area's economic outlook. As such, we don't expect it to help the euro



### ➔ USD: Fedspeak still not impactful

Markets were left unimpressed by the comments from Federal Reserve Chair Jerome Powell at yesterday's Joint Economic Committee hearing. As a few more Fed officials are scheduled to speak today, it seems fair to assume there will be little deviation from recent rhetoric. With limited Fedspeak spillover in the markets, the catalysts for a correction in the dollar are still scarce. The USD has passed three key tests this week (Trump's speech, CPI and Powell) and unless retail sales materially disappoint on Friday, it should be able to at least retain its recent strength until the end of this week. Elsewhere, the Australian dollar took a hit on the back of weak labour data, and may stay on the backfoot as markets gradually price some easing back in.

### ➔ EUR: Lacking positive catalysts

A preliminary reading of 3Q GDP (+0.1% QoQ) in Germany indicates the country has [dodged the technical recession](#) markets were forecasting. The muted positive impact on the euro is in line with a recent trend: some marginal recovery in eurozone data is not enough to reverse the market's

scepticism about the area's grim economic outlook. In line with this, the eurozone's aggregate growth number out later today is unlikely to trigger any rebound in the euro. With the common currency lacking tangible positive catalysts, and with the end of the dollar's resilience nowhere to be seen, EUR/USD may continue to stay capped to the upside. From now on, any move lower in the pair will likely help build resistance at the 1.10 level.

## ⬇️ GBP: Data still playing second fiddle

Retail sales for the month of October are out today (0930 GMT) but, despite some margin for rebound, the market impact will be limited. Meanwhile, latest opinion polls are cementing market hopes for a Tory win, which should keep the downside for sterling broadly limited for now.

## ⬆️ MXN: We expect a 25bp cut today

As Banxico announces monetary policy today, the question is whether policy makers will deliver a 25 or 50 basis point rate cut. The market is leaning in favour of a quarter-point move, and this is also our call (see ["Mexico: Monetary contraction is getting harder to justify"](#)) as we expect most of the board members to try to avoid market volatility. Nonetheless, the combination of low growth and low inflation should keep the dovish bias well in place and we forecast another 25bp cut in December even if the Fed pauses. Today, we expect the peso to find some support as some easing in excess of the 25bp cut is priced out.

### Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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