

## FX Daily: Hard to follow a dollar correction now

Another volatile session for bonds, but this time yields moved lower, with an ADP payroll miss (not a good predictor) helping to halt the selloff. There is a risk that the breather in bonds and the dollar correction are too reliant on expectations of a jobs data miss, though. Elsewhere, the Riksbank may have shown its cards on the dual purpose of FX hedging



### ➔ USD: Pausing before the official payrolls

US bonds took a breather yesterday, with 10-year yields retracting below 4.75% after having reached a peak of 4.88% during the session. Private ADP payrolls contributed to halting the bond selloff, with hiring slowing from 180k to 89k in September (150k consensus). We are still quite surprised to see markets react to ADP figures: they have close to zero predictability power for the actual payrolls, and our economist actually points to an illogical inverse correlation (weak ADP=strong official payrolls).

The ISM services showed a modest slowdown across all survey measures, which however stayed well into expansionary territory (50+). Interestingly, there is an ongoing contrast with the S&P PMI,

which supposedly asks the same questions to the same pool of companies but indicates flat activity (50.1) as opposed to the ISM's upbeat 53.2.

In FX, any tentative dollar correction is not finding too many followers. The swing in rate advantage after the recent bond sell-off makes the dollar a very hard sell, and cautious trading ahead of US payrolls tomorrow shouldn't help.

Market pricing remains well below the FOMC dot plot expectations: -15bp for end-2023, -50bp for end-2023. The 2-year USD swap rate faced a 10bp correction yesterday to fall back below 5.0%, but it all seems too reliant on the jobs figures coming in on the soft side (but as discussed, ADP isn't a good predictor). Ultimately, there is still room for a hawkish repricing at the front end of the USD curve, and the dollar's upside risks remain substantial.

DXY may stabilise around 107.00 today, as markets will assess whether jobless claims can continue to surprise on the downside (bearish for bonds, positive for the dollar), while a number of Federal Reserve speakers are scheduled to deliver remarks. Most speakers are hawks, so expect more support for another hike.

In terms of US politics, it appears that the ouster of House Speaker Kevin McCarthy has had a rather negligible impact on FX but risk assets like equities may take a hit if potential successors are unable to garner enough support and the process proves to be a rather protracted one. Expect defensive currencies like the yen or the Swiss franc to find support should US political stress become a factor, as the dollar might see its safe-haven role being thwarted by risks to growth and consequent dovish repricing of Fed expectations.

*Francesco Pesole*

## ➔ Still unattractive: Riksbank steps up FX protest

EUR/USD has rebounded from the 1.0450 lows but may lack enough buyers above the 1.0530/1.0550 area. The dollar remains an expensive sell, and there simply isn't a compelling story in the eurozone to counter the US exceptionalism narrative. A big drop in August's [eurozone retail sales](#) was another case in point yesterday.

The ability of EUR/USD to stay attached to 1.0500 is almost entirely linked to the US bond market enjoying two consecutive days of reprieve. That may be possible due to the lack of key US data today outside of jobless claims, but the pair is facing the tangible possibility of another leg lower with US payrolls tomorrow.

Domestically, the eurozone calendar is quiet today, but we'll hear from many ECB speakers, including Joachim Nagel, Luis de Guindos, François Villeroy, and Philip Lane – who will participate in a panel with the Bank of England's Ben Broadbent and Riksbank's Anna Breman.

The Riksbank hit the headlines yesterday and prompted a short-lived SEK rally as it asked the Swedish Debt Office to consider phasing out the debt currency exposure at a slower pace so as not to hinder the krona's re-appreciation. Sweden's foreign currency debt as a percentage of total debt has declined from 21% to just below 9% in the past year. FX swaps (via which most of the foreign currency exposure would be) have been cut dramatically, from SEK 24bn in November 2021 to SEK 1.3bn as of March 2023.

The Debt Office is planning to bring its debt FX exposure to zero by end-2026: quite a long period

for a relatively small residual amount, meaning the impact on the krona should be negligible. Even the Riksbank seemed to acknowledge the limited direct implications on the exchange rate, but lamented how the debt office is selling SEK while the Riksbank is buying SEK. In our view, that denotes how much focus the Riksbank has been putting on SEK recently, and may have been an implicit admission of the dual purpose of their FX hedging operations (risk management + SEK appreciation). The first set of data on the RB's hedging operations is due at the end of this week or next, and will tell us whether – as we are inclined to think – the Riksbank is buying more SEK at higher USD/SEK/EUR/SEK. The Riksbank seems to have lost some grip on the market with FX operations, and both pairs may grind higher in the unstable risk environment.

*Francesco Pesole*

## 📈 CHF: G10's strongest currency

EUR/CHF continues to edge lower after September's spike to 0.97, when the Swiss National Bank (SNB) left rates unchanged at 1.75%. Helping it lower, we assume, is the ongoing SNB intervention campaign as it tries to drive the nominal trade weight Swiss franc higher to offset Switzerland's inflation differential with its trading partners. In other words, it wants to keep the real Swiss franc stable. The SNB sold CHF30bn of FX in 2Q23 to do this and strongly hinted in September that it would sell more. The sense that the SNB has 'got the Swiss franc's back' has helped make it the strongest G10 currency this year. With the dollar looking like it wants to stay strong over coming months, the SNB will have to get a stronger Swiss franc via a lower EUR/CHF. That is why we can see it trading back to 0.95 over coming months. Also helping EUR/CHF lower should be European political developments and the risk that a re-introduction of the Stability and Growth Pact collides with some loose fiscal policies in southern Europe.

*Chris Turner*

## ➡ CEE: NBP press conference and no change in NBR rates

Today, we continue the story of central banks in the region. The National Bank of Poland cut rates by 25bp as [expected](#). However, the headlines around the release of the decision have attracted a lot of attention and the market will focus even more on Governor Adam Glapiński's press conference at 15:00 local time today. The post-decision statement implies that further rate cuts will follow, which is our forecast, and we are likely to hear a dovish tone again today albeit a bit more cautious compared to the September meeting, in our view.

In the markets, the FRA and IRS curve jumped roughly 30bp higher after the decision at the short end, pushing the interest rate differential to the highest level since the September decision, implying a stronger zloty. The zloty stabilised at 4.60 EUR/PLN at the end of the day yesterday and for now, we see no room for further appreciation. So the press conference will be crucial to see what happens next. But the dovish tone should again be rather negative for the zloty, which may struggle to sustain yesterday's strength today.

In Romania, the central bank meets today, but here it seems to be a non-event. Rates are expected to remain unchanged at 7.0% and we expect [the National Bank of Romania](#) to stay on the safe side for a bit longer, with the first rate cut here likely to be the last in the CEE4 region. We now [expect](#) the first rate cut in 2Q24 (1Q previously). We also expect the central bank to be more active in the FX market in an attempt to suck record excess liquidity out of the system, which also means a stable EUR/RON at current levels.

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