

## FX Daily: Hawks versus data, part one

We enter two days of central bank meetings where the intent to maintain a hawkish narrative will be challenged by evidence of slowing inflation and growth. The Bank of Canada goes first, with the ECB following tomorrow. We see risks that new economic forecasts will make markets doubt the BoC's hawkish stance, and CAD may face yet more pressure



Tiff Macklem, governor of the Bank of Canada

### USD: Positioning adjustment over?

The process of rebalancing in overbought dollar positions was reversed yesterday as PMIs highlighted once again the widening growth gap between the US and other key developed areas of the world. Yesterday's moves probably suggest that some of the recent resilience in EUR/USD, in spite of rising US yields, was linked to some tentative hopes that the pessimistic eurozone data might have bottomed out. The US PMIs came in on the strong side, with both the manufacturing and services gauges rising despite higher rates and oil prices.

The US data calendar is quiet today, with new home sales the only highlight. There will be some focus on a speech by Federal Reserve Chair Jerome Powell, although he may not discuss monetary policy.

US political events have, in the meantime, continued to unfold in a potentially negative direction

for both risk assets and the dollar (given its strict link to the US growth outlook). Yesterday, the third Republican nominee for the House Speaker – Tom Emmer – ended his bid to be elected for the post. It is reported that another candidate should emerge after party talks today. Evidence that markets are getting increasingly worried about a mid-November US Government shutdown could emerge with the 2-year swaps rates declining, although the strong US dataflow is obviously working against this dynamic.

Still, with markets having seen a modest reaction to geopolitical risk and high US yields making the dollar an expensive sell, a recovery in DXY to the 107.00 highs looks more likely than another material correction for now.

Elsewhere, the Australian dollar is stronger this morning after third-quarter inflation decelerated less than expected. The headline rate slowed from 6.0% to 5.4% (consensus 5.3%) and the trimmed-mean CPI rose 5.2% against 5.0% expectations. The Reserve Bank of Australia Cash Rate future curve now prices in more than a 50% probability of a hike in November. Our base case has been that the RBA would have taken rates a nudge higher before ending its tightening cycle, and today's figures endorse our expectations. Still, the help to AUD/USD should be rather short-lived as external drivers remain dominant and generally unsupportive.

*Francesco Pesole*

## 📌 EUR: Dovish signals mount

The last two pieces of eurozone data before tomorrow's European Central Bank meeting ([here is our preview](#)) helped the case for a pause and endorsed the perceived dovish tilt that emerged at the September announcement. A decline in both manufacturing and service PMIs now raises the chances that the eurozone's stagnation will [morph into a technical recession](#).

The ECB Bank Lending Survey, also released yesterday, showed that weaker economic conditions and higher interest rates have had a [clear impact on borrowing](#). Credit standards were tightened in 3Q, and banks expect to tighten them further in 4Q. Demand for borrowing also declined in 3Q in line with higher rates. All these are indications that the ECB's tightening is being passed through to the economy effectively and argue against further hikes at this stage.

Today, the Ifo surveys out of Germany will be closely watched. The ZEW indices earlier this month came in slightly better than expected, and despite a slump in services, manufacturing PMIs rose more than forecast in Germany yesterday.

EUR/USD may have lost the upward correction momentum after yesterday's PMIs and could stay under some pressure on expectations that the ECB may have to sound more dovish tomorrow given the deteriorating economic outlook. A slip to 1.0530/1.0560 may be on the cards into the ECB announcement.

*Francesco Pesole*

## 📌 CAD: BoC to hold, downside risks for CAD

The Bank of Canada announces monetary policy today, and we expect a hold in line with consensus and market expectations ([here is our full preview](#)). Despite two consecutive strong jobs reports, inflation has slowed more than expected in Canada, while bond yields have spiked and the growth outlook has remained rather clouded.

Markets have continued to price out BoC tightening in the past weeks and there are now 10bp left in the CAD OIS curve by March. A hold today is widely expected, so markets will primarily focus on the content of the monetary policy report. Despite likely attempts by the BoC and Governor Tiff Macklem to keep the hawkish narrative going, some downward revisions to the growth figures may open a window for CAD bonds to rally after the meeting, with the loonie underperforming.

USD/CAD is trading around the early-October highs, but the 2-year USD-CAD swap rate gap has jumped to the tightest (-20bp) since May, while the 10-year yield differential is 80bp in favour of the USD, the highest since 2019. USD/CAD does not look like a screaming sell as it did back in early September, and we see more upside risks to the 1.38/1.40 area before converging to our year-end 1.36 target.

*Francesco Pesole*

## 📌 HUF: Central bank rate cut drives forint weaker

The National Bank of Hungary decided to [cut rates by 75bp](#) to 12.25%, a bit more than surveys expected but broadly in line with markets. However, this 75bp rate cut pace now seems to be the new normal, which is not in line with market pricing if we look ahead. The FRA curve has already started to re-price expectations and we can expect the same direction today. However, this is bad news for the forint, which we thus see exposed to some weakening in the coming days. Moreover, the US dollar is again heading towards stronger levels and global conditions cannot support the forint either. For today, we see the currency heading towards a range of 384-386 EUR/HUF.

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