

## FX Daily: Inflation reality check

Fed Chair Jerome Powell will remind the market of the central bank's hawkish determination today, supporting the dollar. Meanwhile, softer inflation is trimming expectations in the eurozone. Polish inflation will test the central bank's decision not to raise rates. And the EC will publish a statement on Hungary and its rule-of-law progress



Source: Federal Reserve

### USD: Holding pattern

Despite geopolitical challenges to the East, it has been a quiet start to the week for FX markets. The trade-weighted dollar index DXY is tracing out a relatively narrow range in the 105.30 to 108.00 area.

The next clear catalyst on the agenda is a speech by Fed Chair Powell tonight at 1930CET discussing the economy and the labour market. This comes at a time when the buy-side report two of their top three tail risks as: i) inflation staying high and ii) central banks staying hawkish. (The third being geopolitics.) We would say that Chair Powell has recently shown to be at the more hawkish end of the spectrum and that tonight's event risk is a positive one for the dollar.

Dollar price action after Chair Powell's speech should also tell us something about FX positioning. If the dollar fails to rally on a hawkish speech it may continue to tell us that the market is caught long dollars at higher levels and that some further consolidation may be due into December.

For the time being, however, we think the macro environment continues to favour the dollar and see Powell's speech, the October PCE price data (Thursday) and November jobs data (Friday) as upside risks to the dollar.

*Chris Turner*

## 📉 EUR: Inflation plays second fiddle to Powell

[Spanish](#) and [German](#) inflation came in lower than expected yesterday. The German CPI fell 0.5% to 10.0% in November, thanks primarily to the energy base effect and lower prices for leisure and entertainment following the autumn holiday period, while food prices continued to rise. Our economics team remains sceptical that this is the series' peak, and we expect inflation to accelerate again in December. Yesterday's numbers mean that markets are expecting a lower reading in the eurozone-wide CPI today.

However, some impact on European Central Bank rate expectations has already occurred, as markets have trimmed around 7bp from December pricing, which is now at 54bp. President Christine Lagarde is scheduled to speak at least twice more before the 15 December policy announcement, but she may not change markets' expectations of a 50bp hike.

The impact of the inflation story on the EUR/USD has been, predictably, limited. External factors and dollar dynamics continue to drive the pair's performance, and we see downside risks today given that Fed Chair Powell is scheduled to speak later. A break below 1.0300 could fuel more bearish momentum, bringing EUR/USD back to the 1.0200/1.0250 levels seen earlier this week.

This morning, Norges Bank will publish daily FX sales for the month of December. Higher-than-expected NOK sales in 3Q22 contributed to NOK weakness, but the Bank unexpectedly reduced them in November from NOK 4.3 billion to 3.7 billion. Any further reductions may support the currency today.

*Francesco Pesole*

## 📉 GBP: Lack of domestic drivers

Yesterday's testimony by Bank of England Governor Andrew Bailey did not yield any market-moving headlines. Today we'll hear from Chief Economist Huw Pill, who recently pushed back against a 75bp hike and may therefore keep BoE rate expectations in check.

Cable to test 1.1800 as Powell's speech may support the dollar today.

*Francesco Pesole*

## ➡ CEE: Polish inflation will test central bank dovish camp

Today's calendar offers November inflation in Poland, the first print in the CEE region. We expect inflation to be unchanged at 17.9% year-on-year, close to market expectations. However, as usual, the range of surveys is wide, and in addition, Polish inflation has by far posted the biggest surprise in the region over the past three months. Given the pause in the National Bank of Poland's hiking cycle, we can expect a lot of market attention. We will also see the second release of Poland's 3Q GDP, which surprised positively in the flash reading (0.0% vs 0.9% quarter-on-quarter) a few weeks ago.

In Hungary, PPI for October will be published and later today the European Commission is expected to release a statement on the progress made in the rule of law dispute and Hungary's access to EU funds. The statement should have been published last week; however, the EC requested more time. Reports from journalists suggest that the EC will recommend freezing part of the cohesion funds with conditions to be met by Hungary but will also recommend approval of the Recovery Plan. Yesterday's reports also suggest that the Ecofin decision will be postponed from 6 December to 12 December, but Hungarian officials remain optimistic about the final decision.

In the Czech Republic, the Czech National Bank will publish its semi-annual Financial Stability Report including possible changes to macroprudential tools. We do not expect significant changes to the current mortgage rules or capital requirements for the banking sector, but we will see a press conference later today, which should be attended by the governor, who has not been seen in public very often in recent months.

In the FX market, the inflation print will be key for the Polish zloty, which could revive market expectations and support the zloty in the short term. However, unchanged inflation would leave the zloty under pressure from a stronger dollar, moving back above 4.70 per euro, in our view. The Hungarian forint should benefit from the normalisation of EU relations and the end of the risk of a permanent loss of EU money. This should help the forint below 405 per euro.

*Frantisek Taborsky*

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