Article | 24 November 2023 FX

FX Daily: Is less growth pessimism enough?

PMIs came in stronger than expected in the eurozone and the UK yesterday and will be released in the US today. Despite the notion that eurozone growth pessimism may have peaked, rate differentials still point to a weaker EUR/USD. We see EUR/GBP staying pressured. Riksbank FX sales will be in focus after yesterday s hold, and we don t expect any more hikes

USD: Half-day trading

US markets reopen today after the Thanksgiving holiday, but only for a half-day session. Expect volumes to be very thin again. On the data side, we'll see the release of US S&P PMIs, a piece of data that has triggered a growing market impact, but may fail to decisively steer the dollar in a low-volume day.

As we had expected, the dollar is stabilising amid reduced Thanksgiving flows, and an attempt to rally from the euro and sterling following somewhat encouraging PMIs didn't last much longer.

The quieter US calendar has seen market focus being re-directed, namely on oil market developments, a ceasefire in the Israel-Hamas conflict and Chinese real estate news. On the former, the decision by OPEC+ to delay its meeting scheduled for this weekend due to disagreement on output cuts took a brief hit on crude earlier this week. Our commodities team notes that the ongoing disagreement between members will likely increase volatility within the market over the course of the next week, although it is unclear how this will affect broader policy.

In China, we saw an unprecedented policy discussion by the central government to support the real estate sector, as it reportedly planning to allow banks to issue unsecured short-term loans to qualified developers. We would be cautious to think that this will spur a round of optimistic buying on Chinese assets. While it is a positive development on paper, it does signal a very concerned mood in Beijing about the developers' crisis.

It should be a relatively quiet day in FX today. We expect the dollar to keep stabilising around current levels. The next two weeks will set the tone for FX markets into Christmas, with key data (like payrolls) published in the US.

Francesco Pesole

EUR: Dealing with slightly better PMIs

Yesterday's PMIs suggested the worst in the eurozone's economic sentiment may be past us. The composite gauge rebounded more than expected despite both manufacturing and services indicators remaining in contractionary territory.

The IFO release in Germany this morning will offer a deeper insight into the eurozone's largest economy. Consensus is also for a more optimistic reading than last month, with the business climate index seen rising from 86.9 to 87.5, the current assessment from the index from 89.2 to 89.5, and the expectations gauge jumping from 84.7 to 85.8. On the European Central Bank (ECB) side, we'll hear from ECB President Christine Lagarde this morning. The central bank also released its latest minutes from the November meeting yesterday; here is our economist's analysis.

The notion that recessionary pessimism may have peaked in the eurozone is a positive for EUR/USD, but whether this can offer support to the pair already in the near term is a different question. Despite having modestly tightened, the 2-year EUR-USD swap rate differential is at -155bp. The last time it was trading around these levels, EUR/USD was in the 1.03/1.04 area. We keep favouring a stabilisation around 1.0900 for now.

Elsewhere in Europe, we'll monitor the weekly release of the Riksbank FX sales data this morning. The Bank is currently on track to finish purchases in four months, according to our calculations. Yesterday, Swedish policymakers decided to hold rates. As we discussed in this article, we suspect they have missed their last opportunity to hike, and more tightening looks unlikely given a deteriorating economic outlook.

Francesco Pesole

GBP: More downside room for EUR/GBP

EUR/GBP continues to press the 0.8700 support after what has been a very eventful week in the UK. The tax cuts announced by the Treasury are, on paper, a sterling-positive. They are both pro-growth and pro-inflation and do not seem to have excessively unnerved the bond market – especially when compared to those announced previously under former prime minister Liz Truss.

PMIs also came in stronger than expected yesterday, with the services and composite indices moving back above the 50.0 mark. Markets have priced out around 20bp of cuts in the September 2024 contract in the past week. We expect GBP to keep its decent momentum, especially in EUR/GBP, which we expect to make a decisive break below 0.8700 in the coming days. We are still expecting some USD resilience and see a capped upside for Cable.

Francesco Pesole

CEE: Possible improvement in the rating outlook for the Czech Republic

Today, the calendar in the region is again basically empty. This morning we will see consumer confidence in the Czech Republic, which rebounded in October, but so far, we don't see an improving trend. Moody's will publish a rating review of the Czech Republic after the close of trading. The agency has held a negative outlook for the Aa3 rating since last August. We see some chance here for an improvement in the outlook to move towards greater stability. The main reason for the downgrade was the country's dependence on energy from Russia and the deteriorating fiscal outlook. Both issues have been resolved this year, and we thus think that an improvement in the outlook is a matter of time.

In the FX market, yesterday's news of possible EU money for Hungary was greeted by a strengthening HUF. While yesterday's news involves a different part of the EU money than was mostly mentioned in the context of the conflict over the rule of law, it is good news for Hungary. As we mentioned after the National Bank of Hungary (NBH) meeting this week, for new FX gains, we need to see some new triggers, such as the EU money progress. We therefore think yesterday may unlock the next wave of HUF appreciation. Market rates have stabilised, and we might even see some upside after a long string of declines. EUR/HUF has thus probably consolidated slightly above 380 and fell below that level yesterday. Looking ahead, 378 EUR/HUF should not be too ambitious a target if EUR/USD stays at high levels today.

Frantisek Taborsky

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer