

FX Daily: Last chance for the hawks

This week's data will present the last chance for markets to reconsider a December Fed cut that is now fully priced in. While the market's dovish bets appear too high, we think the ISM, ADP and PCE figures will validate them. The dollar remains vulnerable this week, and the yen could extend gains as a BoJ hike this month is now suddenly much more likely



We expect dovish Fed bets to be validated this week

⬇️ USD: Still expensive and vulnerable

This week will offer the last real chance to put a December cut from the Federal Reserve into question. While our call is for a cut next week, we admit the 25bp priced into the OIS curve looks a bit too dovish relative to the mix of data and Fedspeak we have seen so far.

At the same time, this week's economic data releases often struggle to materially move pricing by themselves. The two major inputs for the Fed, payrolls and CPI, are only due after the 10 December meeting. So, despite the dovish asymmetry in pricing, strong hawkish signals are needed to lift the dollar and short-term rates.

In our view, those hawkish signals won't materialise this week. The ISM surveys should remain mixed at best, with manufacturing (released today) still in contraction. On Wednesday, we expect zero ADP payrolls growth (consensus 10k), with clear risks of a negative read, while Thursday's

Challenger job cuts may send some dovish signals. Finally, Friday's core PCE deflator (for September) should stay close to 0.2% month-on-month, given muted CPI and PPI figures, a comfortable level to keep cutting rates.

Considering that the dollar still hasn't fully absorbed the negatives of the recent dovish repricing, we continue to see risks on the downside for the US dollar this week as markets may well cement their cut expectations. There is also some chance that President Donald Trump will announce the next Fed Chair in the next few days. Expectations are that it will be dove Kevin Hassett – confirmation of which could weigh on the greenback.

Francesco Pesole

📈 EUR: Eyes on Ukraine negotiations

Negotiations on a Ukraine peace deal have somewhat stalled in the past few days, but US special envoy Steve Witkoff's trip to Russia this week has some potential of leading to a breakthrough. Given how cautiously markets have been trading on the prospect of a truce, any meaningful progress should lift high-beta European currencies and weigh on oil and gas prices. Remember that, given the high sensitivity of the euro's medium-term fair value to energy prices, the implications for EUR/USD extend beyond the initial impact.

Eurozone data should continue to play a secondary role for FX. We are slightly below consensus with our CPI call for tomorrow: 2.0% vs consensus 2.1% for headline and 2.3% vs 2.4% for core. However, that will hardly be enough to drive markets towards more dovish European Central Bank pricing.

EUR/USD remains around 1.5% undervalued relative to our short-term fair value model, as rate differentials keep pointing up. Our baseline is a return to 1.170 this week.

Francesco Pesole

📈 JPY: Big hawkish surprise

In a rather surprising move, Bank of Japan Governor Kazuo Ueda sent clear hawkish signals in a speech this morning, causing a jump in market pricing for a December hike from 14bp to 21bp.

Aside from explicitly saying the BoJ is considering the pros and cons of a hike, he hinted that there is no clear opposition by new Prime Minister Sanae Takaichi to raising rates. This second factor had been crucial for markets, whose basic understanding was that Takaichi was a dovish-leaning influence.

USD/JPY is trading around 0.5% lower on the news. That is a rather small move relative to a very large overvaluation (both short and medium term) in the pair. A consolidation of rate hike expectations in Japan and rate cut expectations in the US does suggest that the tide may well be turning (at least this week) in USD/JPY, with a decisive break below 155.0 a clear risk.

Francesco Pesole

➡ CEE: Waiting for a peace deal

The CEE region is growing busier once again as the new month begins. GDP data in Turkey and

Poland will be released today, and PMIs across the region should show a mixed picture of industry.

On Wednesday, inflation in Turkey is expected to show some decline from 32.9% to 31.6% year-on-year (1.3% MoM), and the National Bank of Poland is likely to cut rates again by 25bp to 4.00%. A press conference a day later should indicate how far the central bank wants to go in the cutting cycle, given last week's favourable inflation figures.

The Czech Republic will release November inflation and third-quarter wage data on Thursday. Inflation is expected to remain unchanged at 2.5%, slightly above the Czech National Bank's forecast.

On Friday, we will see some hard economic data from the Czech Republic, Hungary and Romania. Hungary is scheduled for another rating review on Friday, this time from Fitch. Moody's, as expected, kept its outlook negative on Friday but didn't downgrade Hungary. This time, we could see more action and a deterioration in the outlook to negative, given that Fitch was the most optimistic rating agency yet.

We will also be monitoring further developments in the peace agreement talks between Ukraine and Russia. Preliminary signs that the talks are moving forward supported CEE currencies last week. Betting websites show a rather pessimistic view, with a 28% chance of a ceasefire by the end of the first quarter. This, in our view, still presents a rather asymmetric risk for CEE FX in favour of further strengthening if we see some progress on this side. This should also deflect some pressure from a dovish NBP or negative rating reviews in Hungary.

EUR/CZK could see a minor move up to the 24.200-250 range after Friday's rate move lower. Otherwise, the Polish zloty and Hungarian forint will await more news on the Ukraine story, with fair pricing in our view at this point.

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