

FX Daily: Let the data do the talking

The Fed has now gone into a blackout period ahead of the FOMC meeting on 3 Nov. In the absence of any Fed communication, it will be the US data that does the talking. Here we see both GDP and PCE inflation data towards the end of the week, which we think should keep the dollar bid against the low yielders. Elsewhere, EM FX is starting to show some mixed performance



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📌 USD: At risk of a correction in the early part of the week

The week starts in typically mixed fashion, where the dollar is offered against North Asian currencies and commodity FX in general, while the Turkish lira continues on its own bearish path. As we detail in this week's [G10 FX Week Ahead](#), the US data calendar builds through the week towards 3Q GDP on Thursday and the September core PCE deflator on Friday. We tend to think the latter will have a bigger market impact given that the US soft patch in 3Q seems well understood. In the absence of any Fed speakers before the 3 November FOMC meeting we think that the persistence in inflation can continue to support the market re-pricing of the Fed curve - and be supportive for dollar strength against the low yielders.

For today, the bid tone in North Asian FX provides a slightly positive risk environment, which could

make vulnerable some large speculative long dollar positions. In the G10 space, this is probably most acute in short AUD/USD positions, where this pair could trade up to the 0.7545/55 area.

For emerging market FX in general, the rouble is quite rightly holding onto gains after [Friday's hawkish hike](#) to 7.50% from the Central Bank of Russia (CBR). But elsewhere the tone is more mixed, where CE4 FX is undergoing a bout of profit taking as investors, at least for Poland and Hungary anyway, feel that central bankers could be too sluggish in tightening cycles.

Overall, DXY has been trading on the soft side and we're worried that 93.50 support results in a move to 93.25 during the early part of the week.

➔ EUR: German Ifo may provide some support

EUR/USD has been trading quite well recently in a 1.1615-1.1670 trading range and looks minded to break up to the 1.1720 area. We track EUR/USD on a Financial Fair Value (FFV) model, which looks at short-term inputs such as yield differentials, yield curves and risk sentiment. Currently, these factors suggest EUR/USD should be trading some 2% lower (largely because short-term US yields are on the move). Our point being that if a short squeeze does drive EUR/USD to 1.1720 it may well not last.

For today, look out for the German Ifo business sentiment index for October. Readings here are expected to soften, although Friday's release of the German Manufacturing PMI surprisingly rose (services fell sharply). Any smaller than expected decline in the Ifo could provide the catalyst for EUR/USD to pierce the 1.1670 resistance area.

➔ GBP: Taking a breather

After all the excitement of the re-pricing of the Bank of England cycle last week, expect GBP and rate markets to take a breather this week. This has left GBP/USD to trade in a 1.3730-3830 range, which looks set to hold over coming days.

The highlight this week will be the Chancellor's autumn statement on Wednesday. Key spending plans are being leaked out through the week. Our initial thoughts are that this week will not see any major announcement on fiscal consolidation strong enough to prompt a more dovish re-pricing of the BoE cycle.

⬆️ MXN: One of our preferred EMFX

Having had a rough few weeks we are pleased to see the Mexican peso coming back bid. We had favoured this outcome in our [October FX talkING publication](#), where strong remittances being sent back into Mexico were great news for the balance of payments and that Mexico was well-positioned to enjoy the benefits of strong US final demand. MXN is also backed by a central bank cautiously tightening policy.

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