

## FX Daily: Little reason to leave the dollar now

After a brief sell-off on Friday's US jobs report, the dollar has returned bid. Helping that trend is geopolitics (Korean markets remain unsettled) and a view that central bankers in trading partners will win the race to cut rates to neutral. Here we have rate meetings in the eurozone, Canada and Switzerland, with 25bp or 50bp cuts being on the table in all



25bp-50bp rates cuts in Europe and Canada can keep the dollar bid this week

### 📈 USD: The case to hold dollars remains

Friday's [softish US jobs report](#) only landed a glancing blow on the dollar and the DXY dollar index did indeed find good support below 106. Geopolitics is probably helping the dollar a little today. Markets probably do not know immediately what to make of the regime change in Syria, but uncertainty in Korean politics and the underperformance of Korean asset markets is certainly noteworthy. And again, by paying 4.6%, one-week USD deposits look relatively attractive into year-end.

Looking ahead this week, we see two themes. The first could be some large rate cuts in the rest of the G10 FX markets. Here we have rate meetings in the eurozone, Switzerland and Canada this

week. 25bp or 50bp rate cuts are options in all, although more likely will it be that just Canada sees a 50bp rate cut. Here the narrative is that while most of the G10 central banks (ex Japan) are looking to cut rates back to neutral, the Federal Reserve will be slower than most trading partners and interest differentials will continue to stay wide in favour of the dollar.

The second theme is the US calendar this week, where Wednesday's release of November's CPI dominates. Consensus expects another sticky 0.3% core month-on-month reading. While not ideal for the Fed, such a reading should not prevent the central bank from cutting 25bp a week later. But a 0.4% MoM reading on core CPI would really throw the cat amongst the pigeons and more seriously question whether the Fed is right to be cutting rates after all.

The Fed is also now in blackout mode ahead of its rate meeting on 18 December, and the only other thing of note in the calendar is tomorrow's release of the NFIB small business optimism index – seen as slightly dollar positive.

There seems little reason to reduce long dollar positions right now and after two weeks of consolidation, we see it as more likely that the dollar will resume its bull trend. We favour DXY to stay bid in a 106.00-106.70 range today.

*Chris Turner*

## 📉 EUR: Looking for renewed losses

Friday's US jobs report was not weak enough for EUR/USD to sustain a move over 1.06 – although we do note that rate spreads have become a little more supportive for EUR/USD. The highlight this week will be Thursday's European Central Bank meeting. Here, [Carsten Brzeski writes](#) that a 25bp cut is probably more likely now, although the press conference could potentially open the door to sub-neutral (i.e., less than 2.00%) policy rates next year. There certainly seem few reasons for the ECB to be cheerful right now, even though the hard data is holding up better than expected.

For today, the only details on the eurozone data calendar are the Sentix Investor Survey and the Eurogroup meeting of Finance Ministers, where presumably the battle of budget austerity versus the pressing need for fiscal support will be hotly discussed.

After heavy losses in October and November, EUR/USD has since enjoyed two weeks of consolidation. It now looks like time for the bear trend to get going again. And despite seasonal trends which are normally EUR/USD supportive in December, we favour EUR/USD drifting back to 1.0500/0520 short-term and potentially breaking lower in the week should US CPI data or the ECB meeting have something for EUR/USD bears like ourselves.

*Chris Turner*

## 📈 CHF: SNB has little room for manoeuvre

This Thursday, the Swiss National Bank will likely be cutting rates a few hours before the ECB. We are a little surprised to see the market pricing 36bp for the SNB decision. We think a 25bp cut is far more likely given that, with the Swiss policy rate already at 1.00%, the SNB has far less room for conventional policy easing. Indeed, there is a case that the SNB does not take rates below 0.50% in this cycle – even though market pricing is toying with the idea of negative rates next year.

Having stayed surprisingly bid during French political stress last week, EUR/CHF is now turning a

little lower. Here we favour a grind lower towards this year's spike lows near 0.9200/9210 as it becomes apparent the SNB will not be able to keep pace with ECB easing.

*Chris Turner*

## ➔ CEE: Attention shifts to inflation numbers

This week, market attention should shift to inflation numbers both globally and in the CEE region. Today we will see industrial production in the Czech Republic, where we expect a below-consensus print. Tomorrow, inflation numbers for November will be released in Hungary and the Czech Republic.

The numbers in Hungary should be of lower importance than usual given that the central bank's focus is now more on FX. Still, our economists expect an increase from 3.2% to 3.8%, in line with market and National Bank of Hungary expectations. Core inflation should be slightly below the NBH forecast, with our estimate at 4.7% YoY.

In the Czech Republic, November inflation should also tick up slightly from 2.8% to 2.9% YoY, in line with the Czech National Bank forecast, but we see clear risks to the upside. On the other hand, core inflation could be below the central bank's estimate at 2.3% versus 2.4% YoY.

On Friday in Poland, the flash inflation estimate should be confirmed at 4.6% YoY, and we will also see current account numbers across the region. On Thursday, the CNB's blackout period will begin ahead of its December meeting and we should see a few interviews and opinions from CNB board members beforehand. The governor indicated last week that a pause in the cutting cycle is on the table, and headlines this week could confirm that.

In markets last week we saw more divergence between PLN and CZK on one side and HUF on the other. The hawkish central banks have added support to the PLN and CZK, and this part of the CEE region is visibly focusing on the local story and rates path. The forint, on the other hand, remains mainly led by EUR/USD, i.e., the global story. We believe EUR/HUF is better priced than EUR/PLN and EUR/CZK, but we don't see any change here until at least the end of the year.

However, we still believe the global story will prevail and the weakness in the eurozone and lower EUR/USD will push CEE currencies weaker later. However, in the short term, we see PLN and CZK maintaining support due to wider rate differentials, while HUF should get some support after Friday's rating outlook upgrade by Fitch.

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