

FX Daily: More noise than signals for the dollar

It has been a mixed week for the dollar, where early-week strength finally eased a little yesterday on indications of softer US jobs data. Yet with the US government shutdown ongoing, we are still in the dark about the true labour market picture. Expect more \$ consolidation and focus on regional stories such as soft China trade data and the Canada jobs release



The dollar rally stalls, but the jobs story remains unclear

➔ USD: Dollar rally stalls

Having been bid for a week, the dollar finally softened yesterday. The catalyst appeared to be some Challenger layoff data and also some alternative data suggesting October's NFP report, which we were meant to see today, should have fallen by 9k. Short-dated US rates had a sizeable 8bp drop on the day – a development that resonated in FX markets. But on the subject of jobs data, there is no sign of an end to the US government shutdown. It looks like Senators will be meeting over the weekend, however, so let's see whether there's any fresh news Monday morning. Betting markets actually attach a 46% probability to the shutdown lasting beyond 16 November.

Where there is jobs data today is in Canada. Consensus is expecting a 5k drop in October after a

big 60k increase the previous month. Any downside miss could firm up pricing of another Bank of Canada rate cut and send USD/CAD to the 1.4150/4200 area, which could prove major medium-term resistance. Commodity currencies like the Canadian dollar may also have a soft undertone today after the Chinese October trade data disappointed overnight. Exports fell 1.1% year-on-year and imports barely grew at 1%. That's not good news for those dependent on industrial demand in China and also a worrying sign for global trade, in that export-dependent economies might not have been able to shake off US tariffs as much as first hoped.

Back to the US, today sees the provisional University of Michigan consumer sentiment number for November. Expectations are for a still healthy 53 reading. And expect continued focus on the frothy Nasdaq, where sharp losses yesterday weighed on the yen crosses. December futures are currently calling Nasdaq a little higher at today's open. Additionally, we have a couple of Fed speakers, John Williams and Philip Jefferson, who sit at the dovish end of the spectrum. However, hard data rather than Fed speak looks to be the bigger dollar driver in the near term.

DXY has stalled at the top of the three-month trading range and we expect it to come lower. It's not clear what will drive lower today, though. And one final point. We had been speculating over the last week whether tightness in US money markets had been contributing to dollar strength. Conditions in money markets seemed to have improved this week, where borrowing at the Fed's overnight Standing Repo Facility has dropped to zero after the \$50bn that was being drawn this time last week. DXY may have topped out near 100.35 on Wednesday. If so, rallies may now stall in the 99.90/100.00 area.

Chris Turner

➔ EUR: China data is unwelcome news

While we like the idea of a weaker dollar and a stronger EUR/USD, last night's Chinese trade data is unwelcome news. It suggests China might not have as easily diversified its exports away from the US as first thought – or at least the ex-US demand is insufficient to offset the loss of the US market. That will only add to fears of increasing Chinese pressure in European markets.

There is a chance that EUR/USD may have established an important low at 1.1470 this week. But for a rally to unfold, we will probably need to get more clarity on the slowing US jobs market. Let's see whether intra-day support at 1.1500/1510 can now hold.

Chris Turner

⬇ GBP: December BoE rate cut looks underpriced

Sterling is enjoying a modest recovery after the Bank of England [left rates unchanged yesterday](#). However, it now seems Governor Andrew Bailey is the swing voter and minded for a December cut. That outcome is only priced with a 70% probability right now, meaning that there is scope for lower short-term rates and a weaker pound. Expect EUR/GBP to find good support if it gets anywhere near the 0.8760 area, and we would expect it to be trading above 0.88 heading into the Budget later this month.

Chris Turner

➔ CEE: The window for rate cuts remains open

The Czech National Bank, as expected, left [rates unchanged](#) at 3.50% yesterday and presented a new forecast. This surprisingly brought a downward revision of GDP from 2.6% to 2.3%. At the same time, inflation was revised slightly downward, but the main problem remains – lower energy prices announced in recent days were not reflected in the new forecast. This topic should be discussed today at the CNB meeting with analysts. At the same time, the governor said that all options remain open and no one within the bank board has closed the cutting cycle.

As we expected, the CNB is becoming more balanced in tone. Although we do not expect a return to rate cuts, the whole story is shifting to more dovish compared to slightly hawkish market pricing. Also, according to our expectations yesterday, EUR/CZK saw the first move down in the morning as an echo of higher inflation and upside after the CNB meeting. Still, EUR/CZK seems well anchored and the range is tightening to 24.300-400 in recent days. A meeting with analysts may send EUR/CZK higher, but 24.400 should be the ceiling for now.

The press conference of the governor of the National Bank of Poland was carried out in [a mixed tone](#) with some hawkish spin. On the one hand, according to the governor, the door remains open for another rate cut either next month or later next year. On the other hand, the governor reiterated that 4.0% could be the terminal rate, although the range of possibilities is between 3.50-4.00%. As we mentioned yesterday, the hawkish risk somehow materialised and the market repriced the terminal rate to 3.75% – 8bp higher. This somehow helps push EUR/PLN down and the level of 4.250 seems fair to us for now. Our economists expect a pause until the March meeting due to CPI revisions at the beginning of the year, but they revised the terminal rate from 3.75% to 3.50% due to the dovish bias the NBP has been showing in recent months.

In addition to the CNB meeting with analysts, we will also be watching the presentation of the Central Bank of Turkey inflation report today. We will very likely see an increase in the end-year inflation forecast (31.9% in our forecast), already indicated by the Minister of Finance earlier, given the latest stronger numbers. The question is whether the inflation target for the end of the year will change and how the numbers for next year will change. Given the preservation of the credibility of these targets, we can assume that we will not see too many changes here.

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