

FX Daily: No turkey for dollar bears

The Thanksgiving holiday means thin volumes and no US data releases today. We expect some stabilisation in EUR/USD after strong jobless claims fuelled the dollar rebound. Still, eurozone PMIs might trigger some fresh position-squaring events. In Sweden, we are slightly in favour of a Riksbank hike today, but it is a very close call given krona strength



➔ USD: Stronger into the Thanksgiving holiday

The dollar rose for a second consecutive session yesterday, this time helped by a surprise drop in initial jobless claims to 209k from 233k: an indication of good labour market resilience ahead of the 8 December payrolls data, which will be key in setting the tone for FX into Christmas. University of Michigan inflation expectations were revised higher, although durable goods orders came in softer than expected in October, which probably limited the scope of the market impact of jobless claims.

Today, FX flows will be subdued due to the Thanksgiving holiday. Equity and bond markets are closed, and there are no data releases in the US. Part of the rebound in the dollar observed over the past two sessions (especially on Tuesday) may well be related to some profit-taking on risk-on trades and more defensive positioning ahead of Thanksgiving.

We think DXY can find some stabilisation around 104.00 into the weekend amid thinner trading

volumes and a lack of market-moving data releases in the US.

Francesco Pesole

➔ EUR: PMI test for positioning

Today's PMI surveys will be a new opportunity for markets to gauge whether eurozone growth sentiment has indeed bottomed out. Consensus expectations suggest this is the case; while staying in contractionary territory, the general view is that we should see a modest rebound in both the manufacturing and services indices.

From an FX perspective, the reaction to the November PMIs will tell us how much position-squaring effects are still playing a role in EUR/USD. Should a surprise in either direction be followed by an exacerbated move in EUR/USD despite thinner trading on Thanksgiving, then we would conclude positioning imbalances persist. We think, however, that some flattening around 1.0900 is more likely.

We have seen some recovery in EUR/USD overnight, and it appears that the surprise win of far-right candidate Geert Wilders in the Dutch elections has not had a noticeable market impact so far.

EUR/GBP rebounded modestly yesterday after the UK's Autumn Statement, where Chancellor Jeremy Hunt announced some widely expected cuts to personal and business taxes. The implications for sterling should – in general – be positive as the tax cuts suggest a better growth outlook and potentially stickier inflation. However, it felt like the move in GBP already happened into the announcement, and there was some “buy the rumour, sell the fact” effect causing a softening of the sterling momentum.

Francesco Pesole

⬆️ SEK: Riksbank at a crossroads

Today's Riksbank rate announcement is as close to a 50/50 hike/hold decision as it can get. The Bank has been hugely focused on the krona's levels recently, and the recent good performance of SEK has prompted markets to lean on the dovish side (70% implied probability of a hold). One major counterargument is that the recent SEK strength has been somewhat “artificial”, given it has been driven by some rather aggressive FX selling via hedging operations by the Riksbank itself.

On the inflation side, core and headline price pressures have abated faster than expected, although the CPIF excluding energy is still at 6.1% YoY, and the Prospera surveys suggested inflation expectations have remained quite sticky.

What we see as a major point in favour of a hike is timing. The Riksbank's next policy meeting is in February, when the economic slack will have likely materialised more clearly in Sweden and abroad and it will be considerably harder to hike rates. If the intent is to provide more support to SEK, the Riksbank may take into account that FX sales (i.e. the “artificial” support to SEK) should terminate around the end of January/early February if the current weekly pace is sustained, and be encouraged to hike now rather than later, when economic conditions likely won't allow it.

All in all, we are slightly leaning in favour of a rate hike today, even though we admit it is a very close call. A hold may be accompanied by an acceleration in quantitative tightening. The FX impact won't just depend on the outcome, since there is a tangible risk of a split board, which

could limit the upside potential for SEK in the event of a hike.

Francesco Pesole

➔ CEE: Turkey hiking rates again

Today's calendar in the region is basically empty. Elsewhere today, we have a central bank meeting in Turkey. We expect another rate hike of 250bp to 37.5%, which is broadly in line with expectations, but surveys show a wider range of rate hikes. The latest inflation release in October showed the underlying trend starting to improve not only for the core rate but also the headline. Accordingly, we expect the bank to consider a slower hike. However, risks are on the upside given strong tightening moves since August.

In FX, yesterday brought an unexpected turn in Czech rates. The market was heavily paid across the curve, more so than elsewhere in the CEE region. The rates move thus shot the interest rate differential up for once, erasing the potential for the CZK weakness we mentioned earlier. EUR/CZK responded by moving lower and back to 24.450. For now, this seems to match the rate move exactly. However, it is hard to say where rates will head today. Yesterday's statement from the Czech National Bank, released after the rate move, suggests that the discussion about waiting for January inflation continues. On the other hand, weak economic data and a stronger koruna are reasons for lower rates and bets on an earlier rate cut. Despite the timing of the first rate cut, we think the short end of the curve should be lower, leading the CZK to weaker levels. Thus, we remain negative on the currency.

Frantisek Taborsky

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.