

## FX Daily: One last big central bank meeting

The dollar is recovering some ground after the pushback from Fed officials against rate cut bets. However, the dovish Dot Plot may work as an anchor for rates and keep the dollar soft into the end of December. In Japan, the BoJ announces its policy in the early hours of tomorrow, and that will direct market expectations about a January hike



Kazuo Ueda, Governor of the Bank of Japan

### ➔ USD: Softer into year-end?

The last few days of market action, before volumes dry up for Christmas, should continue to revolve around the “tug of war” between Fed officials trying to temper rate cut speculation and investors who have instead seen a validation of dovish bets from last week’s Dot Plot projections. Data can tip the scale in these situations, so consumer confidence, personal spending, and PCE figures should move the market this week.

We don’t expect the last bits of US data in 2023 to paint a very different picture, though. Ultimately, the Dot Plot surprise should keep providing an anchor for rates into the new year and prevent a major dollar rebound in a period that is also seasonally unfavourable for the greenback.

It will, however, be important to see how much louder the post-meeting pushback against rate cut bets by Fed officials will be. We'll hear from Chicago Fed President Austan Goolsbee today and Raphael Bostic tomorrow, but with Christmas getting closer, there will obviously be fewer chances to collect FOMC members' remarks.

Today, the US calendar is otherwise quiet, and the FX market will primarily focus on the Bank of Japan announcement overnight (more in the JPY section). We expect DXY to stabilise around 102/103 into year-end, but risks are skewed to the downside.

Francesco Pesole

## ➔ EUR: Still eyeing 1.10

The euro stands a chance to end the year above 1.10, which seemed quite unlikely only a few weeks ago when the dollar was restrengthening and ECB rate cut bets were rising rapidly. Despite the diverging narratives which emerged from the ECB and Fed meetings last week, probably favouring more attempts at the 1.1000 key resistance into Christmas, a break higher is far from guaranteed.

Firstly, the euro still has to deal with the domestic factors that triggered its previous underperformance. Today, the IFO figures will be watched quite carefully, while the rest of the week sees the final release of CPI figures. We'll also need to see whether post-meeting comments by ECB officials diverge in some way from last week's pushback by President Lagarde.

Francesco Pesole

## ➔ GBP: Eyes on inflation this week

This week, the focus in the UK will be on CPI data for November out on Wednesday. As usual, we'll be paying attention to services inflation, which we estimate to come in at 6.6%, showing little near-term progress. That may help markets ease some of the rate cut bets in the UK and help the pound.

Markets are still pricing in four rate cuts by the Bank of England this week despite the Bank's attempt to discourage dovish bets via in-meeting communication. We still think services inflation in the UK will ease to around 4% by next summer, allowing the BoE to start cutting, but the pound has decent room to benefit from some hawkish repricing in the short run. Last week's 0.8550 lows in EUR/GBP may well be retested by the end of December.

Francesco Pesole

## ⬇ JPY: Big swings in sight as BoJ announces policy

The Bank of Japan has started its two-day meeting, with the announcement due early in the morning tomorrow (London time). Bank officials have already tempered rate hike expectations for this month by saying such a move is still premature. Still, with investors now actively betting on the end of negative rates in January, the language at this meeting will be key for the short-term performance of the yen.

Governor Kazuo Ueda (pictured) is facing the options of either keeping the message broadly unchanged and disappointing the market's hawkish expectations or offering hints about the state

of the discussion on a rate hike and potentially suggesting a tentative timing. The good performance of the yen recently as global rates declined is surely taking off some pressure, but data is starting to prove increasingly inconsistent with the ultra-dovish stance of the BoJ.

Our economist is still leaning toward 2Q24 for the first hike, and if that is the preference of the BoJ as well, then it may be too early for a real change in the dovish message later, and the yen risks a downward correction. However, the chances of a hike in January when new economic projections are released are non-negligible and depend on data as well as on JPY performance.

Expect any hawkish surprise in communication tomorrow to push USD/JPY close to the 140 support, whereas an unchanged message can bring the pair back to 145, where we could see selling interest if the dollar momentum proves soft.

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