

FX Daily: PMIs lead the way

The market is focused on the US growth story and the dollar is more and more influenced by data prints. Today's PMI numbers should help limit downside exposure for the dollar. The euro remains supported by ECB officials fighting speculation of a 25bp hike. Hungary's central bank tests market sensitivity on an upcoming rate cut



Some improvement in the market's sentiment around the health of the service sector in the US should help limit downside exposure for the dollar

➔ USD: Data-related risks are back

Risk assets have started the week on the front foot, with equities rising yesterday in Europe and the US while Chinese markets are closed for the whole week. The dollar remained moderately offered.

It's become increasingly clear that larger swings in the dollar are now driven by data releases given the market's heightened sensitivity to the US growth story ahead of next week's Federal Open Market Committee (FOMC) meeting. Preliminary PMIs will be released across developed markets today, and despite the surveys not being as highly regarded as the ISM in the US, that elevated sensitivity to data likely makes today's releases a risk event for the dollar.

Consensus expectations are centred around a modest recovery in the service index and in the composite survey. Some improvement in the market's sentiment around the health of the service sector in the US should help limit downside exposure for the dollar. In that case, DXY may hold

around 102.00 today unless PMIs in Europe surprise to the upside. Richmond Fed manufacturing data is the other release in the US calendar today.

In the rest of G10, AUD has cemented its position as the most popular long trade in 2023, breaking decisively above 0.7000 yesterday. Tonight's fourth-quarter CPI data in Australia will be key, as evidence of sticky inflation may force a hawkish repricing across the AUD curve (which currently embeds 40bp of extra Reserve Bank of Australia tightening) and add steam to the AUD/USD rally.

CPI figures are released also in New Zealand tonight, and we see a larger risk they could show a deceleration in price pressures compared to Australia. AUD/NZD may retest the recent 1.0950 highs soon as the NZD curve has more room for a dovish repricing.

Francesco Pesole

➔ EUR: Reality check

Given that part of the recent EUR strength has relied on a re-rating of growth expectations in the eurozone thanks to lower energy prices, today's PMIs will likely be a reality check on the sustainability of this driver for the common currency. Consensus expectations are moderately upbeat and signal that the PMI services index could return above 50.00 for the first time since July.

Still, it will now take quite a good deal of positive news to push another big idiosyncratic euro rally. It seems more likely that EUR/USD could test 1.1000 on the back of rising market risk appetite weighing on the safe-haven dollar, if anything.

At the same time, the effective pushback by ECB officials against speculation around 25bp hikes is likely limiting downside risks for the pair. President Christine Lagarde has one last chance to deliver any remark today before the quiet period kicks in ahead of next week's meeting. A mere reiteration of her recent rhetoric, however, seems highly likely at this stage.

Francesco Pesole

⬇ GBP: Limited upside room against the euro

PMIs may look a bit grimmer in the UK compared to the eurozone today, which could hinder the modest rebound in EUR/GBP seen over the past two trading sessions. The pair may struggle to climb above 0.8830-0.8850 for now.

Still, the pound should be able to count on a generalised alignment in market expectations around a 50bp hike by the Bank of England next week (45bp priced in at the moment), which suggests a smaller scope for a correction.

Francesco Pesole

⬆ HUF: Central bank assesses progress at home and abroad

This week's highlight in the region is the National Bank of Hungary (NBH) meeting today. The central bank has made it clear that it wants to see a tangible and permanent improvement in risk sentiment. This means an improvement on the geopolitical side and on internal issues such as the Rule of Law, the current account deficit, and inflation. While we have seen some progress on all of these issues, in our view it is not enough for the central bank. However, after the progress in the EU

story and lower-than-expected inflation, markets are already looking for indications of the NBH cutting rates, which are the highest in the CEE region. We [expect](#) the central bank to confirm its intention to keep interest rates high for longer today. However, we concede that the current situation could be tempting for the central bank to test the market by sending a dovish message.

Increasingly, the market is seeing signs of speculation of a too-early interest rate cut. If the NBH resists the temptation and confirms the hawkish tone, we expect the current speculation to cool down and the forint could get back on track. In addition, yesterday's reaction to Fitch's downgrade of the rating outlook to negative could slightly clear long positioning and clear the way for further forint appreciation. In that case, we expect that the forint could test 390 EUR/HUF soon. Otherwise, the current positioning favours a rather asymmetric reaction negatively towards EUR/HUF 400.

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