

## FX Daily: Powell keeps market cautious on the Fed

The dollar remains at risk of positioning-led corrections, but so far macro data and Fed communication have not offered any USD-negative catalyst. Yesterday, Fed Chair Powell emphasised the economy's strength and endorsed market caution on pricing in more cuts. EUR/USD may hold above 1.050 for now, but the general direction still appears bearish



US Federal Reserve  
Chairman Jerome  
Powell

*We have published the [November edition of FX Talking](#), which includes our updated views and forecasts for G10 and EM currencies.*

### USD: Moderately hawkish remarks by Powell

The dollar is testing the limit of stretched positioning, but macro developments have so far failed to offer any real catalyst for a substantial unwinding of the greenback's longs. The set of inflation figures for October have kept markets somewhat reticent to fully price in a December cut from the Federal Reserve, as both CPI and PPI's core measures have printed at 0.3% month-on-month. That is simply too hot for the Fed to turn the dial to a more dovish narrative.

And indeed the remarks by Fed Chair Jerome Powell in Dallas yesterday seemed to endorse markets' cautious pricing on Fed easing, giving some support to the dollar towards the end of the New York session. Powell seemed to put greater emphasis on the strength of the economy and how that allows the central bank to approach the upcoming policy decisions "carefully". Market expectations for a cut in December declined by around 5bp after his comments and are now at 15bp.

Today, there is another chance for a dollar positioning-led correction as retail sales for October are published. Consensus is for a marginal slowdown across all retail sales indices compared to September, while still remaining in positive MoM territory. It probably won't take much to trigger a negative dollar reaction, but the recent momentum has been rather strong in US data.

Our short-term view remains that the dollar is due a correction, and caution is warranted when chasing the current rally much further. However, when we look ahead and consider incoming US president Donald Trump's policy mix, we remain of the view that markets will favour a structurally strong dollar.

*Francesco Pesole*

## **EUR: Key support at 1.050**

EUR/USD tested 1.050 yesterday and then briefly rebounded before coming under pressure again around the 1.0580 area. Intraday volatility will likely be the norm for coming days due to a stretched long dollar positioning, but it is clear that the momentum on EUR/USD remains bearish and investors will remain attracted to selling the rallies.

The minutes of the October European Central Bank minutes showed an ongoing debate about the disinflationary trend, and some hawkish members were reluctant to go for a rate cut that was described as a "risk management" move. There is a clear shift from inflation to growth concerns in the Governing Council, but no indications of a strong consensus for an acceleration in easing. Our view remains that a 50bp move in December remains very much possible, and we expect a bearish impact on the euro given markets are pricing in just over 30bp.

Today, we'll hear from Fabio Panetta, Philip Lane and Piero Cipollone, three dovish-leaning members. The 1.0500 level is a key one for the dollar and we can probably expect good support also considering the positioning picture. Still, our call for year-end remains 1.040.

*Francesco Pesole*

## **GBP: EUR/GBP outlook remains soft**

UK GDP is a bit disappointing, owing to a surprise fall in activity during September. The 0.1% third-quarter figure is a far cry from the 0.7% and 0.5% in the first and second quarters. Does that show the economy has slowed? Yes, but not as much as the figures suggest. A lot of that strength seen in the first half of the year was in non-tradable and non-consumer sectors that have less to do with underlying economic fundamentals. The Bank of England has agreed that the true rate of growth was probably slower in the first half. However we think the BoE/consensus forecast for the winter is a bit high, and while real wage growth should generate higher GDP, the pace is set to be fairly moderate in the near term before receiving a bit of a budget boost next year

GDP was a bit weaker than expected, but it's still not that surprising, particularly given the volatility

in the recent data. The BoE is much more focused on the services inflation figures that we'll get next week. In the near-term, they're likely to remain sticky around 5%. Barring a downside surprise, we think a pause in December is the most likely outcome.

EUR/GBP has hovered just above 0.830 as a wide rate differential continues to put pressure on the pair. Given we see a low probability of the BoE cutting in December while our call is for a 50bp move by the ECB next month, we struggle to see much upside for EUR/GBP before year-end.

*Francesco Pesole*

## 📌 CEE: CNB minutes tells us more about pause likelihood

This morning we see inflation expectations in Turkey for November, which were revised marginally lower from 27.44% to 27.20%. At the same time, other indicators either marginally increased or remain flat. Yet the decline in inflation expectations is cited by the Central Bank of Turkey as one of the main conditions for the start of the cutting cycle.

Later this morning, we will see the Czech National Bank's minutes from its meeting last week. This should show the usual hawkish message from the board, including reasons for the pause in the cutting cycle – but also a discussion of the weakness in the German economy and the US election, which could point in a dovish direction. The CNB will also release a full inflation report including alternative scenarios and other details.

Later, we will also see the final Polish inflation numbers for October, which should confirm a rise to 5.0% year-on-year.

Given the pause in the USD rally, CEE FX had a chance to stabilise yesterday and the day before, and we saw some gains in both PLN and HUF. In our view, the markets are still repositioning after the US election, when the market was generally short in these two CEE currencies in particular. But at the same time we see a lag behind EUR/USD sliding lower. The rates market is pricing in new rate cuts but the rate differential is not changing much given the move in core rates. We therefore remain bearish on the CEE region here.

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