

## FX Daily: Renminbi shorts on the run

A softer dollar environment has seen Chinese authorities turn the screws on those with short renminbi positions. Look for further dollar weakness today given the risk of the lowest US existing home sales data since 2010 and some FOMC minutes which could be read less hawkishly. Elsewhere, look out for a 75bp base rate cut in Hungary



### 📌 USD: Existing home sales data in focus

The dollar continues to edge lower as investors scale back long-held positions ahead of Thursday's Thanksgiving US public holiday. We are going through a relatively benign phase for global asset prices currently, where even last night's 20-year US Treasury auction went better than expected and temporarily parks concerns over the US fiscal trajectory. The auction results saw US yields drop 4-5bp at the long end of the curve and have helped the further paring back of short positions in the yen. Tokyo will be delighted by this move in USD/JPY.

For today, the focus will be on US October existing home sales data and then the 8:00 pm CET release of the FOMC minutes of the 1 November meeting. On the former, ING's US economist is looking for a sub-consensus 3.88mn unit, which would mark the lowest reading since 2010. Driving that low number will be near 8% 30 year mortgage rates and evidenced by low mortgage application data. Should the data come out in line with our thinking it should be dollar negative, showing that rate hikes are working.

Late in the day, investors will pore over the FOMC minutes. These were the minutes in which the Fed included the tightening of financial conditions as likely to weigh on activity. The market looks in the mood to grab any less hawkish headlines and any signals suggesting that the Fed might be done tightening would be read negatively for the dollar.

DXY traded below support at 103.45 overnight (now resistance) and could drift towards 102.95/103.00 and possibly 102.55 depending on today's data and the minutes.

*Chris Turner*

## ➔ CNH: Shorts on the run

Not many, ourselves included, expected USD/CNH to be trading back at these 7.14 levels so soon. Our thinking had been that while Chinese authorities did not want the renminbi any weaker - and were defending USD/CNY at 7.30 - equally they did not want it much stronger as they tried to reflate their sluggish economy.

Yet two factors have driven the renminbi stronger today. The first is the People's Bank of China (PBoC) delivering a much lower USD/CNY fix than expected. This suggested that it was not merely happy for USD/CNY to return to the 7.17 level where it has printed for the last couple of months, but wanted it lower still, hence today's 7.14 fix. Additionally, the PBoC drained liquidity when it did not need to, which could be read as a further attempt to squeeze out those holding short renminbi positions.

It is unclear how much lower Chinese authorities would like USD/CNY to be and local authorities cannot necessarily rely on a broadly soft dollar environment for long. But for the short term, we think these moves can lift the Asian FX bloc in general and add to the current soft dollar environment.

*Chris Turner*

## ⬆️ EUR: Dining out on the weaker dollar

EUR/USD probably surprises many by edging close to the 1.10 level. And the large weight of the dollar in the European Central Bank's euro trade-weighted index also means the euro has retraced half of its drop since July without any major (positive) re-assessment of the region's growth prospects.

We would again expect the dollar story to dominate today. Some soft US existing home sales data is probably the best chance of EUR/USD breaking 1.0960/65 resistance and testing 1.10. But without short-dated US yields starting to break substantially lower - e.g., US two-year Treasury yields remain at 4.90% - we would be reluctant to chase EUR/USD too much above 1.10. Equally, as we mentioned yesterday, another poor set of European PMI readings on Thursday could again pull the rug from under the euro.

The eurozone data calendar is very light today and in terms of the ECB story, it looks like investors may be jumping the gun on expectations for the first ECB cut. The market now prices 33bp of easing by the June meeting.

*Chris Turner*

## ➔ CEE: Recovery in Poland, more cuts in Hungary

Today we have monthly data in Poland for October, including industrial production, PPI and the labour market. And more data will come tomorrow. Overall, we should see confirmation of the economic recovery in Poland in the fourth quarter. Later today we will see the [decision of the National Bank of Hungary](#) (NBH). In line with the market, we expect another rate cut of 75bp to 11.50%. This intention was communicated in advance by the NBH deputy governor last week, so we don't have much uncertainty here. But we will still watch the press conference to see how confident the central bank is about the next steps.

The zloty reached another record-strong level yesterday with EUR/PLN 4.360 and this time it was accompanied by a rise in market rates. PLN should thus hold gains this time longer than during last week's attempts. Unless today's data disappoints, we expect higher rates to further drive PLN to stronger levels. The next target here is thus clearly 4.340 EUR/PLN. Looking forward, although we expect further gains here, it is likely to be slower given positioning and the shrinking potential for market rates to go up.

The forint jumped above 380 EUR/HUF yesterday for the first time since the beginning of the month, a day before the central bank meeting. As we have mentioned in the last few days, the relationship between rates and FX is resuming and yesterday it was on full display. Moreover, the market continues to price in more and more rate cuts, which is in line with our forecast. However, the impact on FX here is unclear. If the market wants to catch up with the divergence in recent weeks, it would mean a significant sell-off in HUF. This is unlikely to be the case, but we could still see further losses today with the NBH's confirmation that rate cuts are continuing. However, in the medium-term, we remain positive on HUF. Weaker levels may clear heavy positioning for another rally later in our view.

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