

FX Daily: Seasonal trends in focus

The dollar has started 2023 with some stability after suffering heaving losses for large parts of the last quarter. Asset managers keen to earn their fees will be looking to put money to work and will probably be positively assessing developments in China. Yet the dollar is seasonally strong in January and February and may hold up better than most think



➔ USD: JOLTS and FOMC minutes in focus today

The dollar has started the year on a slightly firmer footing, where it has strengthened against all G10 currencies except the Japanese yen (JPY). That is a far cry from the 2% (vs Canadian dollar) to 13% (vs New Zealand dollar) losses suffered by the dollar in 4Q22. Even though December is seasonally a negative period for the dollar, some stability was actually seen on the back of the Federal Reserve's hawkish hike. [We felt at the time](#) that the Fed story providing some support to short-dated US yields could help the dollar, which has seemed to be the case.

That Fed story will remain a key driver of the dollar and global asset market trends in 2023. The market has been pretty resolute in pricing further Fed tightening to 4.95/5.00% next spring/summer and then a 200bp easing cycle within two years to leave Fed funds at some kind of neutral 3% rate into 2025. That pricing will no doubt be challenged over the coming weeks and months. For example, today's focus will be on the November JOLTS job opening data, which is expected to decline to 10 million from 10.33 million. How this data emerges versus the consensus will shape views on how quickly the tight US labour market is unwinding and whether the Fed can

show less concern about frustratingly high inflation. More insights into Fed thinking on the subject will be found in the release of the December FOMC minutes at 20CET.

Away from the Fed, all eyes are on developments in China and whether the liberalisation of Covid containment policies can prompt a re-rating of 2023 Chinese and global growth prospects. It feels a little too early for fund managers to bet the farm on this story, where instead the nation appears to be weathering the storm before shutting down for the Lunar New Year on 23 January. That said, global growth prospects are also receiving a lift from the sharp fall in global energy prices (especially gas) and thus it should not be a surprise to see equity markets starting the New Year on the front foot.

Seasonally, January and February are strong months for the dollar and we favour some modest retracement of the heavy dollar losses seen last quarter. Should Fed and global activity (weak PMIs) allow, we have a slight bias that DXY can recover to the 106 area near term - perhaps even to 108 over the next two months.

Chris Turner

➔ EUR: Benign winds

EUR/USD has started 2023 on a slightly softer footing, but it is hard to argue that it needs to fall even more sharply. A major driver of the euro's drop last summer had been the terms of trade story on high gas prices - a story that has completely reversed since September. Equally, the risk environment starts the year with a glass half full/recessions will be mild approach and the dramatic narrowing in two-year EUR:USD swap spreads cannot be hurting EUR/USD either. As it stands then, there does not seem to be a strong and immediate case for EUR/USD to break back down to the 200-day moving average near 1.03.

Perhaps one can expect a 1.0500-1.0750 range to build over coming sessions, with Friday's US December jobs data a possible catalyst for a range breakout.

Elsewhere, we today see Swiss CPI data for December. We said in our Swiss National Bank (SNB) review [back in December](#) that the SNB probably wanted to keep the real Swiss franc strong for the time being as it battled above-target inflation. Assuming Swiss inflation stays near 3% year-on-year in today's release, we would assume the SNB has an interest in keeping EUR/CHF below the 0.9900/9910 area as it continues with its two-sided FX intervention campaign.

Chris Turner

➔ GBP: Settling after a lively December

After a very lively December, EUR/GBP looks to be settling into a trading range above 0.8800. That big rally from 0.86 to a high of 0.8875 was largely driven by the divergence in European Central Bank and Bank of England policy, where the [BOE's dovish hike](#) stood in stark contrast to the [ECB's move](#). We had felt that the 0.88/0.89 area was a fair level for EUR/GBP towards year-end and into 1Q23 and sterling's performance this year will probably be driven by how soon the BoE can stop tightening and how quickly expectations of an easing cycle can build.

We are a little more bearish on GBP/USD, where we think the 200bp Fed easing cycle priced from summer 2023 could be pared back a little. 1.1650 would be the GBP/USD target were US (especially price/wages) data to surprise on the upside.

Chris Turner

CEE: Falling gas prices kick start the region to fuel new gains

On today's agenda is the meeting of the National Bank of Poland. We expect rates to remain unchanged and the rhetoric to be the same as in the December meeting. The new forecast will be published only in March, so there is not much to discuss here. The governor's press conference will take place tomorrow at 3pm local time. Also tomorrow, Polish inflation for December will be published, as always the first in the region. Inflation is expected to fall again at an annual rate, but we think this is not the end of the story and the January and February numbers should show a rebound. Then on Friday, the monthly data set from the Czech Republic will be of interest, which so far suggests the deepest recession in the region. We expect November's industry numbers to bring year-on-year growth back into negative territory.

On the FX front, the market is only slowly returning from low Christmas liquidity back to normal. While locally, market rates remain highly volatile resulting in more of a decline in interest rate differentials versus the euro, global conditions prevail and support further rallies in the region. Favourable EUR/USD levels are no doubt helping, but the main reason in our view is the massive drop in gas prices over the past two weeks. The entire CEE region has regained its relationship with gas prices, which is driving FX to new gains.

The Czech koruna touched EUR/CZK 24.050 yesterday, the strongest level since April 2011, leading the rally in the region. Similarly, the Hungarian forint also took advantage of the favourable global conditions and pegged to the EUR/HUF 400 level. However, gas prices seem to have stabilised and hence this driver should not support these two currencies in the coming days any further. On the other hand, the Polish zloty and the Romanian leu, despite a likely weaker relationship with gas prices, have lagged and could still benefit from this in the coming days.

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