

FX Daily: Short-term rates argue against another big USD leg lower

OPEC+ and soft eurozone inflation triggered a dollar rebound yesterday, but short-term rate spreads were already pointing to a weaker EUR/USD before then. Today, the focus will be on the US ISM manufacturing. Keep an eye out for Canadian jobs figures, too



➔ USD: Reality check for the dollar bears

In yesterday's FX Daily, we argued that the heavy lifting to a dollar recovery was likely hinging on more US activity data resilience but that a hawkish pushback by the Fed and higher oil prices were two other potential channels of dollar support. Personal spending, PCE and initial jobless claims were in line with consensus, but the large OPEC+ output cuts announced in the afternoon after soft eurozone CPI figures favoured a rotation away from Europe back into the dollar.

Our feeling is that investors' positioning on the dollar had started to be stretched on the short side and that eurozone inflation was the trigger for a positioning adjustment but not a game-changer for the EUR/USD outlook. Short-term rate differentials unequivocally pointed to a weaker EUR/USD before the EZ inflation.

ISM manufacturing for November will be in focus today. The FX market is set to remain highly sensitive to any activity data point, but there is a sense dollar bulls have survived the consumer spending and PCE risk, so that today's ISM figures may not have a big impact – barring any big surprises. Incidentally, the notion that the manufacturing sector is in contraction is well

established by now.

We expect some dollar consolidation in the coming days, with still upside risks as the greenback reconnects with its rate advantage.

Francesco Pesole

➔ EUR: Adverse short-term rate spread

As discussed in the dollar section above, we don't see the eurozone inflation numbers as an excessively important event for the EUR/USD prospects. Market pricing had already given up on any rate hike expectations, and the bulk of the ECB dovish repricing is still due to the deteriorating growth outlook rather than disinflationary bets.

Markets are now pricing in a first ECB cut in April, and further dovish repricing will become harder from this point on. However, that won't be necessary to put pressure on EUR/USD if short-term differentials reconnect with the pair. The 2-year EUR-USD swap spread is now at 178bp the lowest since December 2022, when EUR/USD was at 1.05.

Today, the focus will be on a speech by ECB President Christine Lagarde. She will probably continue to hang on to some hawkish arguments to limit rate cut bets, but the efficacy of this line of communication remains questionable.

Francesco Pesole

Elsewhere, EUR/CHF has seen some sharp losses this week to dip below the 0.95 mark. There have been no obvious drivers of this relatively large move, meaning that month-end position adjustment – seemingly broad selling of the euro – is left to get the blame. Looking ahead, we do not see the case for a substantially lower EUR/CHF. Yes, the Swiss National Bank (SNB) has been driving it lower through FX sales, yet we argue that the SNB's desire for a stronger Swiss franc will wane.

This is because the inflation differential to major trading partners is narrowing quickly and means less need for a stronger Swiss franc to keep the real exchange rate stable. We tend to think EUR/CHF will hover around the 0.95 level for most of next year. Were EUR/CHF to fall too sharply, the SNB would probably flip from being an FX seller to an FX buyer.

Chris Turner

➔ CAD: Jobs data in focus after big GDP revision

Yesterday was an eventful day for the Canadian dollar. GDP figures for the second quarter were revised sharply from -0.2% to +1.4% (quarterly, annualised), and the third quarter saw a -1.1% contraction. The negative impact on CAD was rather short-lived, though, as the announcement of large output cuts by OPEC+ spurred oil-sensitive currencies.

Today, the focus is once again on domestic data, with the release of November labour statistics. The consensus is for another respectable employment read (+14k), and we don't have a strong argument against that except for the fact that hiring numbers can be quite volatile. Some focus will be on whether full-time roles will be filled again after last month's increase in headline payrolls was driven entirely by part-time.

The tightness of the labour market continues to be a concern for the Bank of Canada, as policymakers pointed to lingering inflationary risks in the October statement. We doubt Canadian unemployment is bound for a sharp rise in the near term, but the pressure on the BoC to soften its hawkish bias is mounting anyway. As discussed in our [BoC preview](#) (ahead of the 6 December meeting), the growth outlook is concerning not just due to the backward-looking GDP figures, but especially given the high sensitivity of Canadian households to high rates.

Our call is for 150bp of cuts in Canada next year, but the near term outlook for the loonie remains strictly tied to US data, with which it is highly correlated. We feel 1.35-1.37 is the range for USD/CAD into year end.

Francesco Pesole

CEE: PMIs across the region, funding plan in Hungary

Today, we have the busiest day of the week in the CEE region. This morning already saw the release of Hungary's third-quarter GDP data, including the breakdown. Later we will see the same data in the Czech Republic. We will also see PMIs across the region for November. In Hungary, the Government Debt Management Agency will publish the funding plan for next year at 10:00 am local time. It seems that the funding assumption will be a government deficit of 2.9% of GDP, which was approved by the government. However, we expect the deficit to be increased and the strategy updated later.

In the Czech Republic, the outcome of the November state budget will be published. The latest numbers showed an improvement and today's number could help us estimate how much the Ministry of Finance will have to issue in terms of bonds for the rest of the year. In Poland, S&P will publish a rating review after the close of trading. We don't expect any changes here, but it will be interesting to see the commentary on fiscal policy after the October elections.

CEE FX erased basically all of this week's gains yesterday after EUR/USD returned to 1.090, which took over as the main driver. However, after yesterday's correction, the CEE FX relationship with rates should resume again as it has in recent weeks. From this perspective, we see gains for PLN and CZK today. Both currencies reached record-high interest rate differentials yesterday thanks to a larger drop in core rates, which should benefit FX. For EUR/PLN, we see levels below 4.340 and EUR/CZK below 24.250. EUR/HUF, on the other hand, should stabilise in the 380-381 band.

Frantisek Taborsky

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.