

## FX Daily: Sinking dollar floats all boats

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### USD: An important week for the dollar bear trend

The dollar bear trend has strengthened and broadened this week.

In the G10 space, European currencies have broken to the upside (EUR/\$ through 1.20 and USD/CHF below 0.90) and a stand-out for us has been USD/KRW trading sharply down through 1100 barely a week after the Bank of Korea Governor warned of herd-like behaviour and the implicit threat of intervention. In fact, the Korean central bank's FX reserves rose \$10bn in November - the largest monthly gain in a decade and a sign of the amount of money pouring into emerging markets right now. This benign dollar decline is good for world growth, exporting as it does low US rates around the world and allowing the Rest of the World to run looser monetary policy.

Propelling the dollar decline as well has been the fall in US real rates (nominal less inflation) where

US 10-year inflation expectations, derived through index-linked US Treasuries, have pushed up to 1.87% - the highest since summer 2019. Policymakers can congratulate themselves here and progress on a smaller US fiscal stimulus – the \$908bn plan seems to be gaining traction – can cement these trends.

Given all this, we doubt today's November NFP will have much bearing on the dollar. A good number, firms up recovery hopes, a bad number could prompt the Fed into fresh easing. DXY to work its way to 90 this month.

## EUR: EU looks to side-step the odd couple

The threat of easing ECB policy next week has been swamped by the broad dollar trend and is sending EUR/\$ higher.

News that the EU is preparing to write Poland and Hungary out of the Recovery fund should help accelerate compromise here – where a deal at the 10-11 December EU summit would be welcome news for the EUR. December is typically a soft month for the dollar and EUR/\$ could nudge up to 1.2200/2250 ahead of next week's event risks.

## 👆 GBP: Waiting for the puff of smoke

Reports suggest EU - UK negotiators are in the 'tunnel', fishing is still an obstacle and a deal hangs in the balance. Leaders Emmanuel Macron and Boris Johnson are due to meet this weekend, which sets up GBP for a lot of volatility in Asia Monday morning.

Negative rate-backers, Saunders & Tenreyro, speak today. 0.9075 key for €/GBP.

## ➡ ZAR: The indestructible Rand

Despite sovereign downgrades from both Moody's and Fitch last week – both leaving South Africa on a negative outlook – South African sovereign bonds are rallying hard, pricing of default protection is dropping to the lowest levels since February and USD/ZAR is not far from its recent lows at 15.10. Undoubtedly the search for carry is driving these trends.

But ZAR is one of the few emerging market currencies we dislike in 2021 with the debt overhang sadly a real strain for the country. ZAR/RUB has recently stalled at 5.00 and we favour a correction to 4.70.

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