

## FX Daily: Soft euro story dominates

FX markets continue to consolidate after recent volatility, but no one wants to unwind their long dollar positions. Equally, the threat of escalation in Ukraine plus more soft European PMI numbers tomorrow is keeping the euro subdued. We can't see this position changing today. In the EM world, look out for rate meetings in Turkey and South Africa



Kevin Warsh has emerged as the top candidate for the US Treasury Secretary role

### ➔ USD: Dollar holds gains

The DXY dollar index is holding gains and it is not hard to see why. US rates are being repriced modestly higher as the market shifts away from pricing a December Fed rate cut. Just 8bp of easing is now priced. At the same time, the market is bracing for Trump 2.0 and developments in overseas economies are far from encouraging. Equally, one-week USD deposits now pay 4.61% annually, second only to GBP (4.74%) in the G10 space. It is not a surprise then to see investors and corporates holding onto their USD investments.

On Monday we mentioned that the choice of the next US Treasury Secretary could prove a banana skin for US asset markets. However, it now looks (according to betting markets) that ex-Fed member Kevin Warsh is the front-runner for this role. He would be seen as a safe pair of hands given his experience at the Fed and liaison role with Wall Street after the 2008-09 financial crisis.

For today, we doubt US data will move markets although investors will again be watching whether any rise in the weekly jobless claims numbers portends a weaker November NFP report (released 6

December). Expect DXY to remain bid in its new 106-107 range with continued focus on developments in Ukraine and European speakers today.

*Chris Turner*

## 📉 EUR: Geopolitics and Trump threat weigh

EUR/USD looks to have been buffeted by events in Ukraine this week. The war is going through a period of escalation as both sides seek to gain ground ahead of potential ceasefire discussions early next year. That the Biden administration is providing more support before year-end warns of a more aggressive Russian response – a development which is weighing on European currencies and starting to show up in higher natural gas prices. As Warren Patterson notes in his [Commodities Feed](#), Europe's gas inventories are now fractionally below their five-year average for this time of year. We all recall the spike in gas prices in 2022 and the damage they did to European currencies.

At the same time, we have the ECB publicly debating the potential inflationary impact of Trump's impending tariffs and what they mean to the easing cycle. Hawks think the tariff effects could be meaningful, but the doves disagree. On today's agenda, we have the full range of doves and hawks speaking and collectively they perhaps will not move the needle on the 30bp of easing priced for the December ECB meeting. This leaves EUR:USD swap differentials very wide in the dollar's favour, and combined with the threat of some soft flash November PMI numbers across Europe, tomorrow should keep EUR/USD subdued in its 1.05-1.06 range today.

Elsewhere, EUR/CHF remains on the low near 0.93. [In August](#) we had felt that EUR/CHF would stay offered for the rest of the year and recent events only add to that conviction. What interests us is whether the Swiss National Bank will take rates below 0.50% in this easing cycle (we think not). And spread compression should weigh on EUR/CHF as the ECB cuts rates 150bp into next summer. Expect EUR/CHF to grind towards 0.92 – with the main risk now probably being an SNB official saying the policy rate could go negative again after all.

*Chris Turner*

## ➡ TRY: Last step before first rate cut

The Central Bank of Turkey (CBT) is expected to leave rates unchanged at 50% today. The main focus will be on the central bankers' tone and forward guidance for the first rate cut. In the latest inflation assessment, while acknowledging slower-than-expected disinflation so far, the CBT pointed out a deceleration in underlying inflation last month, driven by lower core goods inflation and a more pronounced loss of momentum in services excluding rent. We think that the CBT will wait to see further inflation data, however, given the dovish signals contained within the latest inflation report release. Yet chances of a December cut have increased, in our view.

The lira saw a significant sell-off earlier in the week and a spike in the borrowing rate indicating some closing of carry trades and probably fears of an overly dovish CBT today. However, the market quickly returned to normal and after moving up to 34.600 USD/TRY the market returned to 34.455 yesterday. Even though the first rate cut is imminent, we believe the carry trade will remain a popular position here with us expecting 35.000 USD/TRY at year-end.

*Frantisek Taborsky*

## ZAR: Another 25bp cut from South Africa today

Given South Africa's exposure to China, the rand has been hit hard by the US election result and what it will mean for the Chinese economy and world trade next year. Unlike some other EM economies, however, South Africa has less of an inflation problem with both headline and core inflation largely within the central bank's target range. This is allowing the South African Reserve Bank to ease interest rates in an orderly manner and the market is expecting another 25bp rate cut today. This would take the policy rate to 7.75%.

Were it not for the threat of Trump 2.0, we would be a little bullish on the rand. Relatively high real interest rates in South Africa and some improvements in the domestic economy – better electricity supply is helping business confidence – should be helping the rand. Currently, USD/ZAR is trading above the one-month 17.75 target we outlined in our recent [FX Talking publication](#). But we still have some hope for the rand.

*Chris Turner*

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