FX Daily: Spotlight on the US consumer this week

The dollar starts the week quietly and is holding onto gains made after Fed Chair Jay Powell served up a reminder that the hiking cycle is still live. For this week, the FX market will be focusing on the October US CPI release, but especially US retail sales. Any softer figures here could see the dollar drift towards the lower end of its recent ranges

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USD: Bouncing around in ranges

It has been another quiet start to the week in the world of FX. Investors have been left to mull over Moody's decision on Friday to switch its Aaa rating on the US sovereign to negative, citing familiar concerns over the polarisation of politics and the erosion of governance. However, Federal Reserve policy rather than US sovereign creditworthiness remains the key driver of the dollar at present, and it is through this lens investors will assess the risk of a US government shutdown later this week. Recall that the stop-gap spending bills expire at midnight on Friday and if Congress has been unable to secure future funding plans, the government will have to start laying off workers. If it gets to this stage, this should be negative for US activity and negative for the dollar.

Before then, however, we get to see October releases for US CPI and retail sales. As our team discussed in their week ahead preview, headline CPI could be flat month-on-month, which would see the year-on-year dropping to 3.3%, while core could stay stubbornly firm around 0.3% MoM/4.1% YoY. This should be a neutral outcome for the dollar, although Wednesday's release of some softer retail sales figures could prove a dollar negative and may finally suggest that tighter credit conditions have caught up with the US consumer.

Apart from that, the focus will be on Presidents Joe Biden and Xi Xinping meeting in San Francisco midweek at the APEC conference. Markets would welcome some warmer words given the parlous state of geopolitics at present.

All in all, it looks as though it will be a range-bound week for the dollar. We would suggest that DXY struggles to make it over the 106.00/106.25 area early in the week and could be back to test the recent lows at 105.35/40 by the end of the week as the threat of a US government shutdown comes into starker relief.

Chris Turner

EUR: Not too much damage done

Fed Chair Jerome Powell's hawkish comments on Thursday evening have not done too much damage to EUR/USD after all. Support has held around the 1.0660 area and we may be in for a quiet, range-bound week – perhaps something like 1.0635-1.0765.

In focus in the euro area this week is the preliminary third-quarter GDP release, which is expected to be confirmed at -0.1% quarter-on-quarter, whilst ZEW survey expectations for both the eurozone and Germany are expected to inch a little higher.

As usual, there is a raft of European Central Bank speakers this week. Whilst they may hold out the threat of another hike in this cycle, the market has moved on and is now firmly exploring the idea of three ECB cuts in 2024. That is quickly raising the prospect that EUR/USD never gets a chance to rally next year if the ECB cuts rates as quickly as the Fed. Clearly, our modestly bullish call on EUR/USD next year faces some challenges.

Chris Turner

GBP: Some independent weakness emerging

There does appear to be a little independent weakness emerging in sterling, although the Bank of England's trade-weighted index is only off around 0.6% over the last few days. Quite a large 1.7% MoM drop in UK house prices (Rightmove) will not have helped sterling either.

It is quite a big week for sterling, where both the last wage and CPI releases emerge before the 14 December BoE rate meeting. Private sector wage data could be a little sticky tomorrow, although the BoE has recently been downplaying this. Wednesday's release of October CPI should meet Prime Minister Rishi Sunak's goal of sub-5% as the energy tariff adjustment comes through.

Today we also get a 5:00 pm CET speech from BoE hawk Catherine Mann. She was one of the three voting for a 25bp rate hike at the last meeting. She is speaking on the topic of climate change and monetary policy, but traders are looking out to see if her hawkishness shows any signs of easing.

0.8800 looks to be the risk for EUR/GBP this week, once resistance at 0.8750 yields.

Chris Turner

CEE: More hard data from economy confirms mixed picture in region

After a busy last week, we will have more data from the economy in the CEE region. This morning inflation numbers were released in Romania showing a fall from 8.8% to 8.07% YoY. Later, we will see current account numbers in Poland and the Czech Republic. Tomorrow, third-quarter GDP numbers will be released in Poland (0.7% YoY), Hungary (-0.2% YoY) and Romania (1.9% YoY). To complete the picture, numbers in the Czech Republic released earlier showed a 0.6% YoY decline. On Wednesday, the final October inflation numbers in Poland will be released and should confirm 6.5% YoY, and then on Thursday we should see core inflation falling from 8.4% to 7.9-8.0% YoY.

The forint continues to strengthen despite our expectations last week. The relationship between FX and rates has completely reversed and despite the interest rate differential falling to lowest levels in two years the HUF continues to gain. We retain a sceptical bias for the current gains in the near term given heavy long positioning and the EU money story coming to headlines soon. Therefore, we think further gains should be limited and still expect a EUR/HUF correction higher before more permanent gains.

The zloty is strengthening after the central bank unexpectedly left rates unchanged and we see more room to unwind further rate cuts at the short end of the curve, which should further press EUR/PLN down below 4.420. Lower core inflation and rather neutral Czech National Bank (CNB) minutes have kept EUR/CZK at previous levels. However, this is a rather dovish outcome for rates and markets have started to place bets again on Friday on the start of rate cuts, which we believe will push EUR/CZK higher gradually in the coming days. We see levels above 24.550 for today.

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