

## FX Daily: Steadier price action belies ongoing nervousness

Many parts of the FX market are starting to see the emergence of trading ranges - although Asian FX now looks like the weak link here. Despite this consolidation, FX traded volatility levels remain near their highs as the market awaits another 75bp hike from the Fed in early November. Still higher real rates in the US will leave the dollar supported on dips



### ➔ USD: Dollar correction has been underwhelming

[Earlier this week](#), we had felt that conditions were building for a dollar correction - or at least for a recovery in the battered energy importers in Europe and Asia. That correction has certainly not been forthcoming in Asia, where large parts of the region have fallen to new lows against the dollar. USD/JPY is on the verge of breaking 150 - despite the threats of renewed BoJ FX intervention - and USD/CNH traded as high as 7.28 before reversing course in early Europe on reports that China might soften its quarantine restrictions for inbound travel.

Keeping the dollar bid through all this has been the continued grind higher in US real rates, where the 10-year rate last night closed at a new cycle high of 1.72% - the highest level since 2009.

Prospects of more restrictive US monetary conditions remain a key factor driving the dollar higher and judging from price action this week, it is going to take a lot to conclude that the Fed tightening cycle is over. On that subject, last night's release of the Fed's [Beige Book](#) (prepared for the Fed's 2 November meeting) certainly showed no widespread decline in activity or softening in labour markets or pricing power that would merit a change in Fed tone.

That leaves the dollar at its highs in Asia and about 1.5% off its highs on a trade-weighted basis. Importantly, one week traded volatility for G10 FX pairs remains elevated (e.g. 13.5% for EUR/USD and 16-18% for the commodity pairs) and warns that the dollar could easily grind back to its highs.

We do not see any major market drivers today (though USD/JPY breaking 150 could elicit quite a few headlines and probably some more FX intervention). Certainly, some of the softer US housing data already seen this week has failed to dent expectations for the Fed tightening cycle. And today's US data set (existing home sales and jobless claims) looks unlikely to move the needle either. DXY to trade a 112-113 range.

*Chris Turner*

## ➔ EUR: Lower gas prices have failed to provide much of a boost

Earlier this week, we had felt that the sharp fall in European natural gas prices could give the euro a boost. After all, the spike in gas prices in August had weighed heavily on European FX. EUR/USD, so far anyway, has failed to enjoy much of a recovery - probably because US real rates have still pushed higher throughout. We can therefore conclude that EUR/USD price action has been poor. As such, 0.9850/0.9870 resistance may continue to hold any uptick and prevent a move closer to big channel resistance at 0.9970.

Separately, we have just released our [preview of next week's European Central Bank meeting](#). A 75bp hike looks like a done deal and, as Francesco Pesole notes, we doubt the euro can get much joy even if the ECB threatens even more hawkish policy. 0.92 remains our year-end target for EUR/USD.

*Chris Turner*

## ⬇ GBP/USD: No margin for error

We titled this month's FX Talking update, '[No margin for error](#)', in order to highlight that very restrictive Fed policy created a very difficult environment for policymakers. Central bankers as far afield as Hungary and Chile had seen their currencies punished on views that they may have ended their tightening cycles too early. Of course, when it comes to policy errors, the current UK government leads the pack and despite the best efforts of new Chancellor Jeremy Hunt, the UK is struggling to regain lost fiscal credibility. The UK's five-year sovereign CDS is still trading above 40bp compared to levels nearer 25bp when PM Liz Truss took charge.

Political infighting and the uncertainty of policy continue to demand a risk premium for sterling, where GBP/USD could easily slip back to the bottom end of its wide 1.10-1.15 range. The wild card is what happens to the top job and whether the re-emergence of former Chancellor Rishi Sunak would represent a steadying of the ship or merely split the Conservative party asunder. One can understand why foreign investors will want to steer clear of sterling until the political environment becomes a lot clearer.

Chris Turner

## CEE: Lower gas prices driving FX to stronger levels

We have a heavy economic calendar for today with data on the labour market, industry and PPI in Poland as well as bond auctions across the CEE region. Industrial data indicates that output started expanding again in 3Q, after declining in 2Q. This does not confirm the sharp deterioration in industrial conditions painted by the nose-diving manufacturing PMI. But still, annual growth moderated to single-digit levels in September in our view.

On the FX side, CEE continues to rally driven by [lower gas prices](#). For now, EU storage continues to increase with the latest numbers from Gas Infrastructure Europe showing storage is more than 92% full. However, with the heating season still ahead of us, it is important that the market doesn't get too complacent about the supply/demand picture in the near term. We should hear more from the European Commission in the next two days on price caps, which should be a key message for gas prices and CEE FX.

However, in addition to lower gas prices, we see rising interest rate differentials across the region. In Hungary, we are at a new all-time high after Friday's NBH emergency rate hike and in Poland we are at the highest levels since early September. With EUR/USD above recent lows, we thus see favourable conditions for CEE to continue to rally, driven by further gas price declines if the European Commission approves the proposed measures. We thus see a good chance for the Hungarian forint to erase last week's losses and return below 410 EUR/HUF and the Polish zloty to move below 4.780 EUR/PLN.

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