

## FX Daily: Swimming against the dollar bull tide

The dollar is a little weaker after seemingly large-scale FX intervention from the Bank of Japan (BoJ) and a WSJ article hinting that the Fed is ready to slow the pace of tightening. But decent US 3Q GDP growth and higher inflation readings this week should keep the dollar bid on dips. This week also sees central bank meetings in the eurozone, Japan and Canada



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### ➔ USD: Japan sells a lot of dollars

The dollar opens a new week slightly softer and we would say two main factors are at work here. The first is the large-scale FX intervention campaign underway from Japanese authorities, with reports that Tokyo might have sold as much as US\$30bn late on Friday in a carefully-crafted move to upend speculators chasing what appeared to be a decisive break in USD/JPY above 150. This has resulted in some phenomenal trading ranges, e.g. nearly a 146-152 range on Friday and not far from 145-150 today with another round of intervention in early Asia. Tokyo has yet to confirm that it has intervened, but we might receive FX intervention statistics next week. Though FX markets are deep, \$30bn+ in dollar sales will be having some effect on the dollar across the board.

Friday also saw US rates markets react to a Wall Street Journal article implying that the Fed was wrestling with how to communicate a slow-down in tightening after a likely 75bp hike in November. The article was well-timed in that expectations of the terminal rate for the Fed cycle had just hit 5.00% – and have since dropped back to 4.82%.

However, neither of the above factors may keep the dollar in check for long. On the former, the BoJ meets to set monetary policy this Friday and unless we see a shift in its ultra-dovish outlook (a negative policy rate and ongoing quantitative easing) it seems hard to expect a top in USD/JPY anytime soon. Equally on the Fed side, this week's US data calendar should maintain a hawkish Fed. Third-quarter GDP should come in around 2% quarter-on-quarter annualised and the September readings (both headline and core) for the PCE price deflator should both rise and move further away from the Fed's year-end expectations.

For today, the focus will be on the PMIs released in the US and Europe. These readings should continue to portray greater challenges for Europe. Expect continued high FX volatility and DXY probably bouncing around in a 111.50-112.50 range.

*Chris Turner*

## ➔ EUR: Bear market consolidation

EUR/USD has struggled to make the most of the softer dollar environment. We highlighted last week that the sharp drop in European natural gas prices gave cause for the euro to bounce and aggressive BoJ dollar sales could also have created room for EUR/USD to push ahead. Instead, the EUR/USD recovery has been pretty lacklustre and can be best described as a bear market consolidation. For reference, 0.9950 is now probably significant intra-day resistance, marking the top of this year's bear channel.

Look out today for another soft set of PMI releases across Europe and the eurozone. And we doubt that [Thursday's 75bp hike from the ECB](#) will be a game-changer for EUR/USD.

*Chris Turner*

## ➔ GBP: Some welcome stability

Sterling is trading on a mildly firmer footing as it increasingly looks as though Rishi Sunak will become the UK's next prime minister. It seems that former PM Boris Johnson has pulled out of the race and unless he endorses the third candidate, Penny Mordaunt, we may well hear news later today that the race is over. Were Mordaunt to receive the support of 100 MPs, however, the race could extend into Friday.

Sterling price action seems to assume the advent of a Sunak/Hunt ticket as PM/Chancellor and a focus on trying to restore some of the UK's lost fiscal credibility. After the failed experiment with Trussonomics, the challenge facing the new team will be harder than the one that existed earlier this summer and probably a reason why international investors will not want to chase GBP/USD above the 1.15 level. FX volatility does remain exceptionally elevated, however, and large swings cannot be ruled out.

*Chris Turner*

## 📌 CEE: The region remains supported on all fronts

The Central and Eastern Europe (CEE) region offers a rather lighter calendar this week. Today, we start with consumer confidence in the Czech Republic, which dropped to its lowest-ever reading in September, and labour market data in Hungary, boosted by a one-off pay rise by employers amid a cost-of-living crisis. Tuesday will see the highlight of this week, the Hungarian central bank [meeting](#). The National Bank of Hungary raised rates at an emergency meeting in mid-October, and we expect the central bank to maintain that approach and leave rates unchanged at this meeting. Otherwise, the region will be driven more by global events this week, which offer more this time.

On the FX side, the CEE region continues to benefit from falling gas prices, rising interest rate differentials and friendly EUR/USD levels. The Hungarian forint should remain supported and enjoy this moment of peace created by recent central bank actions and global conditions. The rest of the region should also remain supported. We see room for the Hungarian forint to move closer to 405 EUR/HUF, the Polish zloty to 4.760 EUR/PLN, and the Czech koruna to 24.450 EUR/CZK. However, the ECB meeting will come into play in the second half of the week, resulting in a lower EUR/USD and potentially weaker CEE FX.

*Frantisek Taborsky*

### Authors

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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