FX Daily: The cold days are here

The market is preparing for the Fed meeting and the focus will be on US sentiment data today. RBA raises rates by 25bp to 2.85%, the highest since 2013. Yesterday's eurozone data is pushing the ECB to remain hawkish, but that doesn't necessarily mean a stronger euro. In CEE, we have closed markets today in Poland and Hungary due to public holidays

The pound remains volatile as we approach the Bank of England meeting on Thursday

USD: Consolidating into the FOMC

The dollar's rebound from last Wednesday's lows has continued, with markets favouring defensive dollar positions against European currencies yesterday as risk sentiment weakened and investors positioned themselves for another 75bp hike by the Fed tomorrow.

Today, the focus will be on data releases in the US, and in particular on ISM manufacturing numbers, which might fall back into contraction territory (< 50) for the first time since 2020. While that would endorse well-established concerns of a hard landing for the US economy, it may not do much to divert market expectations ahead of tomorrow's Federal Open Market Committee (FOMC) announcement. A 75bp hike is very much the consensus, but there has been growing speculation on some dovish pivot. We doubt the Fed will fuel such speculation tomorrow, which should set the stage for an extension of the dollar recovery in the second part of this week and beyond.

For today, however, we may see some wait-and-see approach and somewhat lower volatility given the proximity to the big FOMC risk event.

Elsewhere in the G10, we are keeping a close eye on the Antipodeans. The AUD rose after the Reserve Bank of Australia (RBA) hiked by 25bp to 2.85%, in line with the consensus. Tonight, employment numbers for the third quarter will be released in New Zealand, the main piece of data before the 23 November Reserve Bank of New Zealand (RBNZ) meeting. The jobs market is expected to remain extra tight, and there will be a special focus on wage dynamics: evidence of a slowdown in wage growth might take some steam off the New Zealand dollar's good momentum. We continue to see downside risks for AUD and NZD given the challenging risk backdrop and exposure to China's economic woes.

Francesco Pesole

EUR: Data keeps pressure on ECB

EUR/USD has moved back close to 0.9900, and we see more downside potential this week as markets rebuild long dollar positions. Yesterday, the eurozone's CPI numbers came in very hot – headline inflation at 10.7% – and third-quarter growth data met expectations of a 2.1% year-on-year expansion. These figures are unarguably keeping pressure on the ECB to stay aggressive on tightening: whether this will translate into a stronger euro is another question, and not our base case given the prospect of a tough winter for the eurozone.

The eurozone calendar is very light today, and there are no scheduled ECB speakers. We continue to favour a weaker EUR/USD into 0.9500 in the near term.

Francesco Pesole

GBP: A cold winter for the pound?

If the worst of the domestically-driven GBP tumult now looks to be past us, it's clear that the legacy of that period for the pound is a higher beta to global risk sentiment. The pound has been the weakest currency in G10 at the start of this week, with volatility staying high as we approach the key Bank of England (BoE) meeting on Thursday. Our UK economist discusses four scenarios for the policy meeting here: our base case is a below-consensus 50bp hike, which would add pressure to the pound in our view.

Interestingly, it appears that the pound extended losses yesterday after the UK meteorological office issued a warning that this winter may be colder than usual. If indeed mild temperatures have favoured the easing in energy prices recently, meteorological news may become increasingly relevant drivers for markets, which clearly remain on alert for risks of energy shortages and/or hits to some economies. European currencies including the pound are obviously the most affected.

The combination of a GBP-negative BoE and a USD-positive FOMC could press cable into the pre-Rishi Sunak 1.12-1.13 area by the end of this week.

Francesco Pesole

CEE: Polish and Hungarian markets closed for public holidays

Today we get a series of data from the Czech Republic. The key release will be the GDP result for the third quarter, which as always is the first one published in the CEE region. This time it will be more interesting because we expect the region to enter a recession in the third quarter. Thus, today's result will show the direction for the whole region. We will also see the PMI in the Czech Republic, thanks to the holidays one day earlier than in Poland and Hungary, and we expect a further drop in sentiment. In addition, the state budget result for October will be released, which is currently receiving more attention than usual due to the government's growing financial needs.

In the FX market, the picture was mixed yesterday. While gas prices fell to new lows, EUR/USD on the other hand renewed pressure on the CEE market. In addition, core rates are starting to rise again and it will be a problem to maintain the current highs in interest rate differentials in the region in the coming days. However, movements in Hungary and Poland will be limited due to closed markets on a local level due to public holidays. Overall, we remain bearish on CEE FX and are keeping yesterday's targets.

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