

## FX Daily: The good, the bad and the...

It has been a mixed week for FX markets, where the dollar is generally firmer against most currencies (except GBP, a few Asian currencies and the HUF). The big under-performers have been the TRY and to a lesser degree the CLP and a few other commodity currencies. Expect the dollar to stay bid on dips as we focus on more US fiscal stimulus and Fed tightening.



### ➔ USD: Favour dollar consolidation as attention returns to Congress

The dollar is largely holding onto recent gains, though we favour consolidation over an extension to the rally. Focus in the US markets is back on Congress as Biden's Administration tries to get its Build Back Better stimulus plan approved. The Congressional Budget Office (CBO) has now 'scored' or costed this and put a ten-year price tag on it at \$367bn. The Administration, especially Treasury Secretary Janet Yellen, looks fine with this and assumes the CBO is slightly under-estimating the tax take. The package looks set to go to a vote in the House on Friday. But passage still leaves the package subject to re-writing in the Senate. Approval of the whole package (which would see additional US government spending of about \$1.4trn over ten years) looks supportive for the US

growth cycle, the hawkish re-pricing of the Fed and the dollar.

There is no US data today and the important Fed speaker, Richard Clarida, does not hit the newswires until 1815CET.

Yesterday we highlighted the three important central bank events in Turkey, South Africa and Hungary. The Central Bank of Turkey [did deliver a 100bp rate cut after all](#) and did not rule out a further cut in December. The TRY is 10% down on the week and remains fragile. The South African Reserve Bank hiked 25bp to 3.75% and revised lower its expected current account surplus on a quicker decline in export prices than expected. The ZAR got hit, but we suspect it could recover its losses if the dollar continues to consolidate. And the HUF rallied after the National Bank of Hungary hiked the one-week deposit rate by an aggressive 70bp, suggesting that it does not want the Forint to get too weak. 360-365 seems the near-term EUR/HUF range now.

## ➔ EUR: Year-end factors at play

Implied yields for the EUR continue to sink (e.g. two-month EUR yields down to -0.90%). Driving this is the annual adjustment of bank balance sheets, especially in Europe. Many European banks are subject to local bank taxes, which are calculated on the liability side of the balance sheet. Thus excess cash or deposits are out of favour. If we understand correctly as well, European banks with USD funding needs will prefer to raise that funding through the FX swap markets (hence the depressed EUR implied yields via the swap) as opposed to taking USD deposits or issuing USD Commercial Paper (which would be liabilities and subject to tax). These trends will be reversed at the start of the New Year, although typically in FX markets, dollar strength in November has tended to reverse in December.

As discussed over the last two days, DXY has stalled at a big resistance level of 96.00/96.10, while EUR/USD has found support at 1.13. We favour consolidation over renewed EUR/USD losses - consolidation which could see EUR/USD trade 1.1300-1.1400 for the time being.

In terms of Eurozone events today, look out for ECB speakers Lagarde and Weidmann at a [European Banking Congress](#) event in Frankfurt. The event also sees DB CEO Christian Sewing speak - who wants an early ECB rate hike. Let's see whether Jens Weidmann agrees!

## ⬆️ GBP: October retail sales provide support

October retail sales are the latest piece of evidence to support a BoE rate hike on December 16th. These follow strong jobs data and surging CPI. For today the focus will be on a 13CET speech from BoE chief economist, Huw Pill. He was one of the first to support tightening discussions advanced by Governor Bailey - and he'll have more ammunition now.

GBP/\$ could possibly make its way towards the 1.3600 area while the dollar consolidates. EUR/GBP looks pretty range-bound around the 0,8400 area.

## ⬆️ NOK: One of our preferred currencies in 2022

As we discuss in our [2022 FX Outlook](#), the NOK is one of our preferred out-performers. A strong economy and a strong Norges Bank tightening cycle can see the under-valued NOK recover more of the losses suffered during the March 2020 liquidity crisis.

Look out for Norway's 3Q GDP data today - which can help frame Norges Bank thinking for the

next meeting on December 16th. A weaker CHF/NOK is one avenue where NOK strength may express itself the most in Europe.

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