

## FX Daily: The new standard in FX?

In our [2023 FX Outlook](#), we argued that G10 currencies should face less trend and more volatility in 2023. We saw an example this week, as the fading bear-dollar trend did not prevent some wide swings in risk-sensitive currencies (like NOK and SEK). In the UK, the pound survived the Autumn Statement, but downside risks persist in GBP/USD



A keynote speech by ECB President Christine Lagarde will be in focus today

### ➔ USD: Bearish sentiment cooling off

As recently discussed in our [2023 FX Outlook](#), we are quite sceptical of a clean bear dollar trend from the current levels. This week's moves in the FX market may have offered a glimpse of what we expect to be the main theme in G10 FX next year: less trend, more volatility. The dollar has stabilised after the big correction, but regional stories triggered significant swings in some crosses. Scandinavian currencies fell by around 2% this week, hit by equity volatility and geopolitical tensions, while NZD and GBP have appreciated on some domestic optimism. In New Zealand, next week's central bank meeting will be a key risk event: [here is our preview](#).

We think this consolidation phase in the dollar may extend for a little longer, before a re-appreciation of the greenback into the end of the year. Indeed, markets will remain highly sensitive to Fed speakers: today, only Susan Collins is scheduled to speak, but we have a number of other members lined up for next week. FOMC minutes will also be released on Wednesday.

So far, post-CPI comments have indicated some lingering caution on the inflation battle as most Fed members tried to curb the market's enthusiasm about an imminent dovish pivot. The future market has now fully priced back in a 5.00% peak rate in the first half of 2023.

The US calendar is rather light today and only includes existing home sales and the Leading Index. With the dovish pivot narrative softening, we expect some re-appreciation of the dollar in the near term, but that is a trend that could only start from next week or the one after. DXY may stay around 106/107 today.

*Francesco Pesole*

## ➔ EUR: Lagarde's speech in focus

ECB President Christine Lagarde will deliver a keynote speech at a banking conference this morning. Two more ECB speakers are on the list today: Joachim Nagel and Klaas Knot, both hawkish voices in the Governing Council.

If the Fed remains the key driver for the dollar, the ECB continues to have a rather marginal role for the euro, which instead remains primarily tied to global risk sentiment and geopolitical/energy dynamics. EUR/USD may stay in the 1.0350-1.0400 trading range into the weekend and while we don't exclude another short-term mini-rally, we think that the macro picture continues to point to sub-parity levels in the coming months.

*Francesco Pesole*

## ➔ GBP: Most painful fiscal measures delayed

The pound survived the much-feared Autumn Statement by Chancellor Jeremy Hunt yesterday. The build-up to the statement seemed to signal more restrictive measures on the economy, but Hunt counted on a calmer market backdrop and – [as discussed in detail by our economist](#) – delayed some of the most painful measures. Ultimately, the impact on next year's growth should not prove huge, especially compared to expectations. The tax hike will only affect high incomes and energy companies, and the National Insurance cut by the previous government has not been reversed.

The most relevant change was the increase in the energy bill guarantee from £2,500 to £3,000 from April 2023, which should generate some drag on consumers. That is only marginally more generous than the average household energy bill under current wholesale prices (which we estimate at around £3,200). The risk is obviously that wholesale prices spike again, meaning a higher cost for the energy support package.

We think it is too early to call for a prolonged stabilisation in the gilt market, and our debt team notes that there is still a lot of extra supply for private investors to absorb.

We continue to see downside risks for GBP/USD as the dollar may start to recover into year-end, and target sub-1.15 levels in the near term. However, we forecast some outperformance in EUR/GBP (primarily due to EUR weakness), which could rise to 0.89 by year-end.

*Francesco Pesole*

## ➔ NOK: Strong domestic story may not matter

Norwegian GDP data for the third quarter surprised on the upside this morning, showing a rather strong 1.5% quarter-on-quarter growth. This is a testament to how the domestic story should remain largely supportive of NOK, also into the new year. Whether this will ultimately feed into a stronger krone is another question, and mostly depends on whether markets will prove calm enough to allow fundamentals to play a role.

The last week clearly showed that the road to a recovery in NOK is going to prove quite uneven, as the low-liquidity krone should continue to face large swings. We really think volatility will be the name of the game for EUR/NOK next year, even though our base-case scenario is downward-sloping in 2023. In the short run, a return to 10.60+ is a tangible possibility.

*Francesco Pesole*

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