

FX Daily: Waiting for the Fed pushback

FX markets are consolidating after a few risk-on days. We have seen some strange price action on the back of the RBA's 25bp hike and some mixed Chinese data. For today, it looks like a relatively quiet session, although the focus will be on how aggressively the line-up of Fed speakers wants to push back against the recent weakening of US financial conditions



➔ USD: Fed speakers will be in focus today

FX markets have handed back a little more of their risk-on gains overnight, leaving the dollar marginally stronger. However, US ten-year Treasury yields are still down at 4.65% and last night's release of the [Fed's Senior Loan Officers Survey](#) serves as a reminder that credit conditions are tightening and lending growth is weakening – both of which are likely to weigh on the US economy over coming quarters.

In quiet overnight developments, what stands out is the strange reaction in AUD/USD to the [Reserve Bank of Australia's 25bp hike](#). The poor performance of AUD/USD may owe to positioning, or perhaps some read that if the RBA needs to restart its tightening cycle after a four-month pause, maybe the Fed does too. Yet, US rates have not moved much, and the Australian dollar also failed to gain ground on slightly better-than-expected Chinese import data. Perhaps the read here

is that the market needs a lot more evidence before pushing on with the Fed pause/peak and weaker dollar scenario.

Today, the US highlight will be Federal Reserve speakers, which run from 1:30 pm CET for most of the day. At issue will be whether the Fed chooses to push back against the loosening of US financial conditions. Recall that the tightening of financial conditions in mid-October prompted remarks such as the 'term premium is doing the tightening'. Now that these financial conditions have fully reversed that October spike, the Fed will presumably want to re-emphasise the risk of further rate hikes.

Risks look skewed to a mildly stronger dollar today. DXY closing above 105.50 undoes some of last week's bearish work. But from where we stand, it looks like DXY might bounce around in a broad 104.50-106.50 range into year-end.

Chris Turner

➔ EUR: Resistance holds

In the end, EUR/USD did not even get to test resistance at 1.0765 before falling back. 1.0650 seems the risk today given the event risk of hawkish Fed speakers. Locally, the focus will be on the eurozone PPI figures, another set of weak German industrial production figures and some European Central Bank speakers later in the day.

As we have been saying recently, the euro story looks weak and EUR/USD will only rally if the US story is weak enough to trigger some clear bullish flattening of the US yield curve. That scenario looks premature. The baseline may be some kind of 1.0550-1.0750 range now unless the US data takes a decided turn for the worse.

Elsewhere, the Scandi FX story has been interesting. The Swedish krona understandably did well in the lower rate, risk-on environment. The Norwegian krone performance has been very underwhelming and warns that EUR/NOK could be banging on the door at 12.00 again if US rates move higher again. Here, look out for event risks from US Treasury auctions this week. Three, ten and thirty-year Treasuries are auctioned today through Thursday.

Chris Turner

⬇ GBP: Not quite the BoE pushback we were expecting

Having re-introduced [forward guidance last week](#), we thought the Bank of England (BoE) might have pushed back against market pricing for rate cuts in the second half of 2024. Instead, BoE Chief Economist Huw Pill yesterday said that expectations for rate cuts from next summer looked reasonable. We think these comments are a mild sterling negative and given the risk that Fed-speak puts equities on the back foot again, risk-sensitive sterling could hand back some of its recent gains. For example, EUR/GBP could trade back up to 0.8710/20 and GBP/USD could drop back to 1.2290 perhaps 1.2250.

Additionally, Pill's warnings of soft UK CPI releases coming through over the coming months could hold sterling back.

Chris Turner

📌 CEE: Weak data confirming weak economy

The calendar today offers data on industrial production in Hungary and retail sales in the Czech Republic for September. In both cases, we expect confirmation of the weak performance of the economy. In Hungary, we will hear from the Minister of Economic Development. However this time it will probably not be market-oriented. Also, the two-day meeting of the National Bank of Poland (NBP) officially starts today but we won't see the outcome until tomorrow.

On the FX side, EUR/CZK is back up after the surprise stable Czech National Bank (CNB) rates last week which supported the CZK. As we mentioned in our CNB review earlier, we expect weaker economic data and new bets on a rate cut in December to lead EUR/CZK higher again in our view. Yesterday's industrial production results were the first opportunities and more data to come this week including today's retail sales. At the same time, the interest rate differential hasn't changed much since the CNB meeting and therefore we don't see a justification for lower EUR/CZK levels at the moment. With that said, we see EUR/CZK above 24.50 for the days ahead.

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