

## FX Daily: Waiting on the last big macro events of the year

USD has continued to buck seasonal depreciating trends thanks to a still-high short-term swap rate. We expect a wait and see approach today ahead of the last key central bank events of the year over the next couple of days. Outside of the US, strategic CAD shorts are likely being added due to political turmoil, while strong UK wage data is keeping GBP bid



### ➔ USD: Still countering the seasonal trend

Yesterday's composite PMIs were generally stronger than expected across main developed markets, although there were clear signs of softening in manufacturing on both sides of the Atlantic. The currency market isn't drawing many conclusions in monetary policy terms and dollar crosses seem to be settling in the latest ranges ahead of the last big week of macro events before the year-end recess.

In the US, we'll see retail sales for November today, and expectations are for a robust read – which should, however, have little bearing on tomorrow's FOMC communication, given some volatility and distortion still in the data due to the impact of extreme weather events. Market pricing is firm

on a 25bp cut, which is also [our call](#) and consensus.

We think something of a wait-and-see approach could dominate today and favour a further consolidation in the dollar's latest gains. Ultimately, unless the Federal Reserve signals a more dovish path than the market implies (and we don't think it will), a 2-year USD OIS rate around 4.0% remains the key counter-seasonal factor keeping the dollar from correcting meaningfully in the generally soft month of December.

Elsewhere in North America, Canada has been shaken by the resignation of finance minister Chrystia Freeland due to divergences with PM Justin Trudeau on how to deal with the threat of Trump tariffs. Trudeau has nominated Dominic LeBlanc as a replacement. He was part of the Canadian delegation that visited Mar-a-Lago last month given his latest responsibility for border security.

Turmoil in Canadian politics is adding a reason the bearish side of the loonie, which remains heavily affected by the prospects of North America trade tensions. Should this lead to a collapse of Trudeau's government and snap elections, expect the anti-tariffs policy to be the key theme of the campaign. Still, now that the news of Freeland's resignation has been absorbed, we are not convinced USD/CAD needs to accelerate much further on the upside unless the Fed surprises markedly on the hawkish side. Both technical and seasonal factors point to the rally being stretched at this point – and we think it could stall after passing 1.430. That said, the outlook for next year remains gloomy for CAD, and chances of a shift to 1.45+ are tangible if Trump goes ahead with 25% tariffs on Canada.

*Francesco Pesole*

## ➔ EUR: Fiscal hopes should take time to come to euro's rescue

The eurozone PMI bounced back into expansionary territory (51.4) in December, driven by strong services. The manufacturing picture remains gloomy though, and Germany's still-soft 47.8 composite PMI is preventing any tentatively positive news to be priced into the euro at this stage.

That might also suggest a higher probability of Germany parties increasing fiscal stimulus promises, after the no confidence vote yesterday officially paved the way for snap elections in two months. However, we sense that it will take markets embedding a more supportive fiscal story into the euro, as uncertainty about bending the strict German fiscal rules remains and we expect large European Central Bank easing to remain centre stage for the currency market.

Today, expect some impact from Germany's Ifo and ZEW surveys, although the proximity to the FOMC risk events suggests EUR/USD may well remain anchored to 1.0500 today.

*Francesco Pesole*

## ➔ GBP: Hot wage data to keep EUR/GBP pressured

UK labour statistics published this morning are generally quite hawkish for Bank of England expectations, and are leading to a stronger GBP. Headline 3M/3M employment slowed only modestly to 173k in October, against expectations for only 5k. That is, however, an unreliable measure and may be ignored. The same is true for the unemployment rate, which remained at 4.3%.

What is really important for the Bank of England is the surprise acceleration in wages. Both headline weekly earnings and the ex-bonus measure accelerated again above 5.0%. Crucially, this acceleration is all concentrated in the private sector (where wages grew 12% on a month-on-month annualised basis), where pay trends are more intrinsically linked to wider economic trends.

There are still indications that the jobs market is cooling – e.g., lower vacancies than pre-Covid – but clearly today's data is offering a reason for hawks to get louder in the MPC.

Ultimately, there is a compelling case for EUR/GBP to stay below 0.830 in the near term, with risks still skewed to the downside as the BoE will highly likely stay on hold this week, highlighting the striking policy divergence with a dovish ECB.

*Francesco Pesole*

## HUF: NBH will try to show the hawkish face again

The Hungarian National Bank is very likely to leave [rates unchanged](#) today again at 6.50%, in line with economists' expectations and market pricing. While inflation and GDP have surprised to the downside recently, the central bank continues to focus on FX. EUR/HUF has fallen from its highs around 415 last week, but even current levels in the 408-410 range are not enough reason to believe in sustainable financial market stability. The focus will be mainly on the press conference communication. In November, the main trigger for the FX sell-off was one vote for a rate cut, so that should not be a surprise to markets today.

At the same time, the central bank will present a new forecast. While the GDP outlook should be revised down, inflation may see some upward revisions especially in the longer term. However, we believe the central bank will generally try to confirm the hawkish story today.

The market is still holding the IRS curve up after a selloff and outpricing almost all monetary policy easing two months ago. Currently, the market expects only two rate cuts in two years and the entire curve is very flat. While rates have indicated some normalisation of levels in recent days, yesterday the curve jumped up again by 10-24bp across the curve amid very low liquidity common for year-end. This suggests that the market may be significantly volatile while still appearing not to have stabilised after moves in previous weeks.

If the central bank delivers a clear hawkish message, we believe this could be positive for the HUF, which is now vulnerable after yesterday's sell-off in the rates market. At the same time, we believe the rates market should start pricing in rate cuts again given the weak economy and inflation below expectations. Moreover, the current finance minister will take over the leadership of the NBH in March next year, which the market sees as a dovish shift by the central bank, and we therefore believe the market will return to dovish pricing sooner or later. The HUF should try to stabilise at stronger levels by the end of the year, but medium-term we remain negative with a move to 420 EUR/HUF over the next year.

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