Article | 6 December 2021

FX Daily: We've got our eye on you

Friday saw the US Treasury release its delayed report on currency manipulation. We'll have a more detailed look later, but headlines suggest the US Treasury continues to work with Switzerland, Taiwan and Vietnam on FX intervention issues. The Treasury is also closely monitoring the FX activities of Chinese state banks. The dollar may stay bid today

USD: US jobs data keeps hawkish Fed bets alive

Friday's November US jobs report has kept the narrative alive of the Fed wanting to push ahead with quicker tapering and early tightening even as the full effects of the Omicron variant are unknown. As we were noting last week, the dramatic flattening of the US 2-10 year US Treasury curve typically sees underperformance of the commodity complex (true in G10), while the Japanese yen and Swiss franc were the only two currencies stronger against the dollar over the last week.

This week could see a subtle shift in direction. Friday will see the US November CPI release, expected at a new cyclical high of 6.7% year-on-year with upside risks. That should keep short-dated US yields and the dollar supported. But weekend comments from Chief US Medical Advisor, Anthony Fauci, that Omicron looks more transmissible but less severe could provide some breathing room for risk assets. That could mean somewhat of a comeback for the commodity currencies of Australia, Canada (which also have policy meetings this week) and Norway. This could potentially see a reversal of the euro and Japanese yen cross rates, with both currencies having performed well in a risk-averse environment.

On a quiet Monday, investors may also take note of the release of the US Treasury's semi-annual report on currency manipulation. We'll have more detailed analysis on this later, but a quick overview suggests: i) the Yellen Treasury favours engagement over tariffs thus no country was named a manipulator, ii) The US Treasury is engaging with Vietnam, Taiwan and Switzerland over FX intervention practices and iii) is closely monitoring the FX activities of Chinese state-owned banks. The Swiss National Bank has certainly been less active in intervening this year and as we have seen, there no longer appears to be any support line in the sand for EUR/CHF.

For today, expect DXY to trade well within the 95.50-97.00 range - a range which may well hold into the 15 December FOMC meeting.

EUR: Rangebound

The European Central Bank's trade-weighted euro has fallen just over 5% this year and despite the recent correction is only just 0.3% off the low for the year. A dovish ECB plus Europe's greater exposure to the global manufacturing cycle, along with vaccine hesitancy, have all contributed to the euro's poor performance. We have just seen a terrible German factory goods orders number for October and one suspects the only help that the euro can get before year-end is if the ECB turns less dovish.

As above, range-bound trading into the big central bank meetings of Dec 15/16th suggests EUR/USD may be bound by a 1.1180-1.1380 range. Elsewhere this week look out for tightening in both Poland and Hungary as both seek to insulate against any further currency weakness.

GBP: Saunders sell-off

When one of the most outspoken hawks on the MPC says he needs to think twice about voting for a rate hike in December, markets take notice. Remarks from Michael Saunders on Friday certainly hit sterling and saw the UK money market curves adjust sharply. It is a quiet week for UK data and speakers, just October monthly GDP and October industrial production, but a Bank of England inflation attitudes survey this Friday should prove useful ahead of the 16 December BoE rate meeting.

Cable has decent support at 1.3170/3200, so let's see whether this can hold as the bottom of a near-term range.

CAD: Time for a recovery on the crosses?

The Canadian dollar has been hit hard by the Omicron news and the sharp correction in oil, yet the domestic Canadian story remains strong. Friday's release of Canadian employment data was strong across the board and suggests the Bank of Canada can prove one of the more optimistic central banks when it meets on Wednesday this week.

EUR/CAD has enjoyed a sharp 2.5% correction since late November, but we expect it to return to the 1.42 low.

Authors

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Disclaimer