

FX Daily: What to watch in markets during the festive period

Markets are unlikely to be moved by any data release over the Christmas period, but a bumpy exit from the zero-Covid policy in China and developments in the energy market might cause a deterioration in global risk sentiment. We remain bullish on the dollar in early 2023. The Czech National Bank will close this year's meetings of central banks in the region



This is the last FX Daily of 2022. We'll resume publication on Wednesday, 4 January 2023. We wish all our readers a happy holiday season!

➔ USD: No key data in the next two weeks

Markets are still digesting yesterday's hawkish [surprise](#) by the Bank of Japan as we approach the quietest period of the year. The market reaction to the BoJ shock has seen a widespread sell-off in bonds, but no negative spillover into Western equities. USD/JPY is trading around 131.80 at the

time of writing: closing the year above 130.00 may be a welcome development at the BoJ as it could signal that speculation on further policy normalisation has – for now – been kept in check.

Today, markets will look at the Conference Board consumer confidence as well as home sales data. Yesterday, housing starts came in above consensus while building permits plunged much more than expected. In neighbouring Canada, expect CPI data to impact the Canadian dollar this afternoon.

Since this is the last FX Daily of the year, we should also look at potential FX drivers in the two weeks ahead. On the data side, the US calendar includes personal income, PCE and durable goods orders for November (on 23 December) as well as Dallas and Richmond Fed manufacturing indices on 27-28 December. For the time being, there are no scheduled Fed speakers until the Fed minutes release on 4 January.

We doubt data will be able to shake markets in the low-volatility environment of the festive period. News from China and on the energy crisis is more likely to drive any significant move if anything. In China, an increasing number of unofficial reports suggest that the actual death toll may be considerably larger than the reported one: should this be backed by more evidence, markets may increasingly doubt the sustainability of China's zero-Covid exit path, with negative implications for the yuan, Asian EMFX, and high-beta currencies.

On the energy side, Russia's potential retaliation to the EU cap on gas prices, a possible re-escalation in the conflict in Ukraine and weather-related news (which has been a key driver of gas prices lately) may all have repercussions on the FX market. European currencies continue to look quite vulnerable from this point of view.

We think DXY could close the year around the current levels. In line with its seasonal trend, December has been a soft month for the greenback. It's worth remembering that the dollar rose in each of the past four years in January. Our view for early 2023 is still one of dollar recovery.

Francesco Pesole

➔ EUR: Keeping an eye on energy market volatility

We think EUR/USD may find some stabilisation around 1.0600 into year-end as volatility starts to drop. A drop to sub-1.0500 levels is, however, possible should market sentiment deteriorate, especially on the energy side.

There are no major data releases to highlight in the next two weeks for the euro, at least until the German CPI figures for December are released (3 January). No European Central Bank speakers are scheduled.

Elsewhere in developed Europe, keep an eye on today's release of the Swedish Economic tendency survey. In Norway, it will be worth keeping monitoring daily FX purchases published by Norges Bank on 30 December. The Bank has scaled down krone sales in the past two months, and – [as discussed here](#) – this may signal appetite for a stronger currency. Expect some NOK volatility around the release. We see EUR/SEK and EUR/NOK enter the new year from the 11.00-11.10 and the 10.45-10.55 ranges, respectively.

Francesco Pesole

➔ GBP: Outlook for 2023 still looks challenging

While dealing with multiple strikes, the UK will not see a lot of data releases in the coming two weeks, with tomorrow's first GDP data unlikely to move the market. There are no scheduled Bank of England speakers until the first week of January.

We continue to see mostly downside risks for the pound in the new year, as a recessionary environment and sensitivity to market instability may cause a return to the 1.15-1.18 range in cable. For this festive season, GBP/USD may hold around 1.2100-1.2250.

Francesco Pesole

➔ CEE: CNB in a comfortable situation

Yesterday's [meeting](#) of the National Bank of Hungary brought a surprisingly hawkish market reaction. The NBH managed to maintain its "higher rates for longer" stance while announcing that the programme of providing hard currency to energy importers will be extended for the coming months. Both represent positive news for the forint. Implied yields have risen again to near-record levels, providing a shield against potential sell-offs. In addition, falling gas prices have once again driven FX in the CEE region in recent days, and given that Hungary is the most energy-dependent country in the region, this is translating positively into a strengthening forint. Thus, all in all, everything speaks in favour of further strengthening of the forint, strengthening our view and we expect 400 EUR/HUF levels in coming days.

Today, we will see the last Czech National Bank meeting of the year. In line with the market, we [expect](#) rates and the FX regime to remain unchanged. The board members have been very open in their talks over the past few days, so we are unlikely to see any surprises. Although inflation rose more than the market expected in November, it is still below the CNB's forecast due to government measures. Moreover, the koruna has been below the CNB's intervention level for a long time and in fact yesterday it reached its strongest level against the euro in 11 years. Thus, according to the new reaction function, the central bank is in a comfortable situation. For now, we believe the koruna is mainly supported by global conditions, falling gas prices and a weaker US dollar. In both cases, we believe this is temporary and moreover, the positioning seems mostly long within the region in the case of the koruna. Thus, we think koruna will hit its limit soon.

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