

FX Daily: Yen back in the spotlight

Ahead of tomorrow's US jobs data release, the short-term highlight in the FX market is the continued outperformance of the yen. This has nothing to do with a risk-averse environment (asset markets are bid) and everything to do with the Bank of Japan potentially ending its negative interest rate policy. It looks like the yen can hold its gains near term



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➔ USD: Mixed environment, yen strength stands out

FX markets remain relatively calm. One anomaly is that global risk assets (both bonds and equities) are doing quite well, but the dollar is staying quite bid. Normally one might expect the dollar to be easing gently lower in an environment like this. One explanation for this is that while interest rates are falling around the world (risk positive) they are actually falling faster overseas (especially in Europe) than in the US. Notably, EUR versus USD swap differentials are at the widest of the year and exposing the soft underbelly of EUR/USD.

But the short-term highlight is the outperformance of the yen. The focus here, once again, is whether the Bank of Japan (BoJ) plans to end eight years of negative interest rates when it meets on 18/19 December. The FX market has been here many times before with this story - only to be

rudely disabused of its speculation every time.

However, [at ING we have pencilled in a BoJ rate hike](#) in the second quarter of next year. Our suspicion is that speculation of a BoJ move at the 18 December meeting is premature since there is no accompanying Outlook Report - a report that could show CPI sustainably hitting 2% and justifying an end to negative rate policy. That said, USD/JPY could still drift to the 144.50/145.00 area over the next week as speculation continues to build about a December BoJ move.

The underlying dollar story, however, will be determined, by tomorrow's US jobs report and next week's FOMC meeting. It looks like the US bond market is already pricing in a soft number - which warns perhaps of a firmer dollar if the data is not too weak. Yet we suspect that investors are in the mood to put money to work - noting a major pro-risk turning in the inflation and interest rate cycle - such that the dollar gets sold into any rally tomorrow.

For today, we doubt jobless claims will be a big driver of price action today. We will be interested to look at the October US consumer credit data after the close today to see whether record-high credit card interest rates are finally taking their toll on the US consumer.

DXY has been performing better this week, but we see a scenario where it stalls in the 104.25/50 area.

Chris Turner

➔ EUR: Pushback from the hawks?

One of the hottest stories right now is that traders are pricing in, for next year, more rate cuts from the European Central Bank than the Federal Reserve. And traders are pricing in twice the rate cuts for the ECB than the Bank of England next year. We think that the pricing of the ECB cycle is far too aggressive and our forecast is for 75bp of cuts starting in June - rather than the 125bp cuts starting in March/April. We hear from ECB arch-hawk Robert Holzman this morning. Let's see whether he can move markets.

Given that extreme pricing of the ECB curve, it may then be that EUR/USD does not need to fall too much further. 1.07 is currently our year-end forecast - largely because our team felt US data could hold up in the fourth quarter. But let's see what tomorrow's US jobs report and next week's Fed and ECB meetings have to say on the matter.

We see EUR/USD holding support at 1.0730 today.

Chris Turner

➔ CEE: NBP presser should support PLN

The National Bank of Poland left rates unchanged as expected. The statement did not change much either. The MPC wants to know more about the new government's fiscal policy and the impact on inflation before its next steps. So the more interesting story today will be Governor Adam Glapinski's press conference. [Our economists](#) see stable rates next year, but the story and risks are not so simple.

In addition to the NBP, today we will also see monthly data in the Czech Republic, including industrial production which, like yesterday's retail sales, should confirm the weak economy in the

fourth quarter. Also this morning, the second reading of Romania's third-quarter GDP data has already been published.

In the markets yesterday, rates were catching up with the fall in core rates from the previous days across the CEE region, which somewhat undermines the FX picture in general. This is most visible in the PLN and CZK market. In Poland, however, the hawkish NBP should help the currency today. Thus, we may see a weaker zloty this morning but by the end of the day, we should be back to 4.320 EUR/PLN or lower. On the other hand, in the Czech Republic, the CZK remains without the support of the central bank and rates are pointing more towards the 24.40 EUR/CZK levels where we were a few days ago. Moreover, weaker data may support this move higher.

Frantisek Taborsky

MXN: Holding gains

After the Polish zloty, the Mexican peso has delivered some of the largest total returns over the last month (alongside the Turkish lira!). As we discuss in our [2024 FX outlook](#), we think the Mexican peso can hold firm - even in the face of rate cuts. On that front, Mexico today releases inflation data for November - where core CPI is expected to drop to a new cycle low of 5.3% YoY.

The market is slowly coming round to the view that Banxico could cut rates in the first quarter - perhaps at the March meeting. Pricing of a Banxico easing cycle looks a little conservative and we think MXN rates could soften if next week's Banxico policy meeting sheds more light on an easing cycle - especially if anyone were to vote for a cut.

We think MXN gains will be more of a total return story in 2024 - i.e. attractive interest rates but spot USD/MXN not going too much below 17.00. Indeed, Banxico might well be thinking the peso is a little too strong on a real exchange rate basis. But strong fiscal support should see Mexican growth hold up next year. Another reason we think the peso should continue to outperform.

Chris Turner

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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