

FX: Two central banks, two hawkish hikes

We expect the Bank of England to deliver a hawkish hike today which could see the GBP rally more against the EUR than the USD given the ECB's dovish forward guidance



USD: Fed Chair nomination to soften the dollar

With the November FOMC meeting being in line with expectations cementing the odds of the December hike – [Fed Review](#), the full focus turns to the event of the week – the widely anticipated nomination of the next Fed Chair today. Speculation based on unnamed White House sources suggests Jerome Powell being President Trump's pick. As he is widely perceived to represent the continuity of the current Fed's stance (cautious gradualism in policy tightening) this should lead to a modestly soft USD and lower UST yields as the Taylor premium is priced out ([USD: A Swift Taylor Shake Off?](#)). Coupled with ECB President Draghi working his magic last week and taking the volatility out of bunds for months to come, all this should lead to a recovery in emerging markets FX and high yielders in particular.

EUR: Moving above the EUR/USD 1.1700 level

EUR/USD will be primarily driven by the announcement of the next Fed Chair nominee. The likely nomination of Powell suggests a lower USD and an upside to EUR/USD, with the cross likely moving above the 1.1700 level.

GBP: Hawkish hike #1 – tactical sterling upside to continue

As per the [Bank of England preview](#), our economists expect the BoE to deliver a hawkish hike today with:

- (a) a large majority of members voting for a rate hike, at 7:2 split
- (b) still a relatively optimistic view on wage growth in 2018
- (c) MPC pointing that market expectations for the path of rate rises are too low

The key upside risk to GBP stems from the potential MPC's hint at a need to raise rates further in "coming months." Overall, we see scope for an asymmetric reaction to a BoE hawkish vs dovish hike. Given that short GBP positions have been reversed of late, a more dovish BoE could see GBP falling more against the dollar than the euro. In contrast, a more hawkish BoE could see GBP rally more against the EUR than USD given the ECB's dovish forward guidance.

Our base case of a hawkish hike suggests EUR/GBP moving towards 0.8700 and GBP/USD testing the 1.3400 level.

CZK: Hawkish hike #2 – EUR/CZK to break below 25.50

Given the solid state of the Czech economy, clear pro-inflationary pressures, rising macro-prudential risks and the muted Czech Koruna (CZK) spot reaction function to rising interest rates, we expect the Czech National Bank (CNB) to deliver a hawkish 25bp hike (see [CNB Preview](#)). We coin it hawkish given (a) the likely upward revision in CNB's own interest rate forecast, making it more linear and in turn suggesting more hikes ahead in coming quarters; and (b) the potential for 2-3 board members actually voting for a 50bp one-off hike.

As a result, we expect EUR/CZK to break the psychological 25.50 level today.