

FX Daily: Pressure cooker

Higher US rates, a stronger dollar, EM local currency weakness and higher inflation are causing a vicious cycle for some in emerging markets - especially in Turkey. Let's see whether the Central Bank of Turkey follows through with rate cuts today. Also, look out for a rate decision in South Africa where a 25bp rate hike is far from guaranteed



➔ USD: Dollar happy to sit on its highs

The dollar is holding onto recent gains, although as we noted yesterday, we think some consolidation could be due since DXY tested and stalled at some big resistance at 96.00/9610 mid-week. The main focus in FX markets today will be rate meetings and central bank actions in the likes of Turkey, South Africa and Hungary (please see below). And there is also a focus on whether Washington is trying to coordinate a release of strategic oil reserves with China, Japan and a few other Asian nations. Our [commodities team feels that such a release](#) might be enough to turn the tide in oil markets ahead of a structural shift to a supply surplus early next year. European gas prices remain high, however.

There are a few Fed speakers today and we'll also see whether US jobless claims continue to fall. Further declines here can feed the narrative that the US could hit full employment (3.8% unemployment rate?) sooner than the Fed expects and prompt earlier Fed tightening.

We would also like to highlight the release of our [2022 FX Outlook: Liquid Allsorts](#). Our core view is that the dollar can continue its rally against the low yielders, but that these mid-cycle dollar gains, should not stand in the way of some strong performance in the commodity FX space. And with intense inflation and tightening expectations around the world, we believe that several EM currencies can out-perform very steep forward curves - the Rouble would probably be our favourite here. Feedback on the report and views is always welcome!

➔ EUR - German case numbers on the rise, focus on Hungary today

EUR/USD continues to trade on the soft side and has not pulled away from support at 1.1300. Not helping it, has probably been the news of record Covid case numbers in Germany, which could dent the recovery in the services sector just as the manufacturing sector is struggling with supply chain disruption. Watch for a speech from ECB Chief Economist Philip Lane, speaking at a NY Fed event on the subject of trans-Atlantic monetary policy. He speaks at 1530CET. Core doves like Lane, Schnabel and Lagarde are yet to shift from the transitory camp.

As discussed in our 2022 FX Outlook, we're bearish EUR/USD into the end of 2022 - but we have a 1.16 end '21 forecast. Our scenario here is of seasonal dollar strength playing out in November (so far, so good) as financial institutions shore up balance sheets for capital adequacy checks in early December and then seasonal dollar weakness in December. Of course, the risk is that macro trends dominate and the dollar stays strong - but there is a slight chance that the 1.1265 low, seen on Wednesday, was the low for the year.

Elsewhere in Europe, it will be interesting to see what the National Bank of Hungary (NBH) does with its one-week deposit rate today (currently 1.80%). The announcement is at 1150CET. When hiking the base rate 30bp to 2.10% earlier this week the NBH also warned that it could use the one-week deposit rate to help guide financial markets (support the Forint?). The market has taken that to mean that the NBH could hike the one-week deposit rate by 50bp to 2.30% today. Back in late 2020, the NBH had kept the one-week depo rate 15bp above the base rate, so a 45-50bp hike to 2.25-2.30% is not completely out of the question. Any less of a hike could see the HUF come under pressure again.

➔ GBP: Holding pattern

GBP is holding onto gains after the combination of strong jobs data and high CPI cements views of a 15bp hike BoE hike on 16 December. The UK calendar is quiet today. Tomorrow should be more interesting with retail sales and a speech from (perceived hawkish) chief economist Huw Pill in Bristol.

There are no signs of a low in EUR/GBP just yet (grind down to 0.8315?) and Cable may trade broadly in a 1.34-1.36 range.

➔ TRY and ZAR: To hike, hold or cut?

Both the Central Bank of Turkey (CBT) and the South African Reserve Bank (SARB) meet to set interest rates today, The market had been expecting a 100bp rate cut from the CBT (which would make it 400bp of cuts since the summer), but the Lira is under some serious pressure and the CBT may choose to hold rates. A further CBT rate cut now would really confirm that policymakers are more concerned about growth and less concerned about disinflation (and the Lira.)

South Africa has yet to hike in this cycle. Unlike in many countries, inflation in South Africa is well contained within the SARB's 3-6% target - meaning that the SARB is not under the same pressure to act. Economists are split as to whether the first 25bp hike comes today. If so, the ZAR might enjoy some support on the view that the SARB is preparing a monetary policy cushion ahead of what could be a tricky 2022. If we are right with a view that seasonal dollar weakness re-emerges in December, a SARB rate hike could help \$/ZAR stall at 15.50/60 resistance and reverse towards 15.00 for year-end - all assuming that EUR/\$ corrects back up to the 1.15/16 area for year-end - quite a large assumption!

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