

FX Daily: Risks to the krona

US markets are closed for the Thanksgiving public holiday, but there is plenty going on elsewhere in FX-land. Focus today will be on whether the Riksbank still plans to keep its policy rate at zero deep into 2024, plus whether the National Bank of Hungary feels the need to protect the forint with an extra 10bp hike in its one-week deposit rate



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➔ USD: Consolidating after a strong run

The DXY is sitting near the highs of the year. Given that this particular trade-weighted measure of the dollar is heavily skewed to European currencies, the combination of a bullish Fed and fourth waves in Europe is making the DXY look very bid. This is reflected in G10 FX performance over the last week, where the Swedish krona has underperformed (SEK heavily exposed to European trade) while the Canadian dollar has withstood US dollar pressure the best. That trend, i.e. lower, EUR/CAD, should be a core one for 2022.

Overnight, we saw the release of the FOMC minutes - the meeting at which the Fed agreed to start tapering. 'Various' participants did propose more flexibility on expedited tapering and earlier tightening if inflation demanded it - but that position looks largely priced in. Yesterday's release of the Fed's preferred measures of inflation for October saw headline and core PCE running at 5.0% and 4.1%, respectively - new cycle highs - and market pricing of the Fed cycle is staying firm. As if the dollar did not need any more help, the October trade deficit came in much better than expected at \$83b - a reminder of US energy independence in what was a bad month for energy

importers.

In other news, the Mexican peso sold off sharply on the proposal of the relatively unknown (in monetary policy circles) Deputy Finance Minister as the next Banxico governor. We see that MXN sell-off as overdone and expect another 25bp hike from Banxico in mid-December to bring USD/MXN back under 21.00 again on a 500bp MXN pick-up over USD.

As above, expect quiet markets today for the Thanksgiving holiday and no obvious reason for the dollar to hand back recent gains.

⬇️ EUR: ECB sticking to PEPP end date

EUR/USD has been moving lower with some momentum as the prospect of European lockdowns has only widened the Fed versus ECB tightening story. Temporary support seems to have been found around the 1.1200 area, but the only factor supporting it seems to be oversold technical readings. Presumably more selling interest would emerge were a correction to be seen to the 1.1280/1350 area. Next support is at 1.1170 and below that we're not getting far from 1.10 at all. This looks the state of play into December when, in the early weeks, we will see if any slowing in the relentless demand for USD funding (for year-end balance sheet purposes) takes some upside pressure off the dollar.

Look out for a variety of ECB speakers today and also the release of the minutes to the 28 October ECB meeting. Despite the fourth wave in Europe, the ECB seems to be sticking to the view that the PEPP scheme will end in March. Of the speakers today we would focus on Isabel Schnabel (10CET). Earlier this week she said that she saw inflation risks skewed to the upside. That is quite a [big deal](#) for the ECB and could prove one of the few supportive factors for the EUR ahead of the 16 December ECB meeting.

Elsewhere today Hungary will be in focus. In response to EUR/HUF trading above 370 this week, the National Bank of Hungary is expected to hike its one-week deposit rate 10bp to 2.60%. Failure to do so could see the forint come under renewed pressure.

➡️ GBP: Holding gains

The focus has moved on from GBP this week as the dollar stays strong across the board and continental Europe suffers fourth waves in the pandemic. Tensions surrounding the Northern Ireland trade arrangements seems to have cooled (Downing Street seems too busy putting out other fires) and this has allowed the Bank of England's sterling trade-weighted index to hover near the highs of the year.

We have two BoE speakers today. Jonathan Haskel (dove) speaks at 1505CET. We think it highly unlikely he votes for a hike in December so any dovish remarks look unlikely to hit the pound. Governor Andrew Bailey speaks at a Cambridge Union event at 1830CET.

Expect EUR/GBP to continue to trade around 0.8400, though ECB speakers could provide some upside risk.

⬇️ SEK: Riksbank may add pressure on the krona

A major underperformer this week, the Swedish krona, will face a key challenge this morning as the Riksbank announces monetary policy. As discussed in our [meeting preview](#), we think the

Riksbank will steer away from any clear hawkish signal today, downplaying the risks of persistent inflation.

What markets will mostly look at is the rate path projections, which are currently flat at 0.00% through 2024. We think the projections won't be touched today, but we wouldn't be very surprised to see a first hike being pencilled in for 2024. However, we don't expect any sign that tightening will start already in 2023, as that would likely represent a quite hawkish shift and may fuel further hawkish re-pricing.

Some focus will also be on any discussion around the timing for balance sheet reduction, even though a SEK market that is pricing 45bp of Riksbank tightening in the next year should almost solely be driven by the rate projections today. As we expect the Riksbank to be more cautious than market expectations, SEK could extend its losing streak today, with EUR/SEK possibly approaching the 10.30 level.

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