

## FX Daily: 'Unhealthy' price action

The Central Bank of Turkey continues to intervene in FX markets and sell USD/TRY, citing 'unhealthy price formations in exchange rates'. In Brazil, the local central bank is also selling dollars, but here to offset some of the large dividend outflows from the BRL normally seen at this time of the year. A hawkish Fed this week should see the dollar stay bid.



The Central Bank of Turkey

### ➔ USD: Holding pattern into the Fed

FX markets are generally quiet as they await the major event risk of the Fed, where the [new FOMC statement](#) and projections (including Dot Plots) are released at 20CET tomorrow. Today's US focus will be on whether the US debt limit gets raised and also whether Joe Biden's Build Back Better stimulus package can make any progress in the Senate. We would expect DXY to continue trading towards the upper end of its 95.50-97.00 range ahead of the Fed.

Away from the dollar, the focus remains on the Turkish Lira, where the [Central Bank of Turkey tells us](#) it continues to employ direct intervention due to 'unhealthy price formation of exchange rates'. It has confirmed four bouts of direct FX intervention since the start of December, when USD/TRY has been trading above 14. Given that FX intervention is now being used, the market will be on the lookout to see if Turkey will be signing any additional FX swap lines with other central banks - having last week renewed its FX swap line with Qatar.

## ➔ EUR: More focus to the East today

EUR/USD will continue to trade a range into tomorrow's Fed meeting. Recall that positioning can prompt some strange outcomes, where the hawkish set of Fed Dot Plots in September actually saw EUR/USD rally in the aftermath to 1.1750, before subsequently dropping 5%. Please see Francesco Pesole's latest take on [FX positioning here](#).

14CET today sees the National Bank of Hungary (NBH) announce its policy decision. Faced with the highest headline and core inflation since 2007/08, Peter Virovacz expects the NBH to increase its base rate 30bp to 2.40%, while also taking the interest rate corridor (currently 1.60% to 4.10%) also 30bp higher. Recall that the NBH has started to use the flexibility of the interest rate corridor by taking the one-week deposit rate up to 3.30% to support the Forint. Other highlights today should be the NBH further reducing its QE bond-buying (currently at HUF40bn per week, but in practice already running below half that) and ending the corporate bond-buying programme.

On balance we see the NBH rate move plus HUF liquidity draining measures (FX swaps, NBH bills) as providing some support to the Forint into year-end and prefer to see EUR/HUF drifting towards the 360 area.

Today should also see Polish November CPI confirmed at 7.7% YoY. The persistence of CPI and second-round effects is a theme we explore in our latest edition of [Directional Economics EMEA](#), with the conclusion that it will mean interest rates staying higher for longer across the region.

## ➔ GBP: Natural gas prices on the rise again

European natural gas prices continue to push ahead. When these were last this high back in September and early October these had tended to drag GBP money market rates around on the view that higher energy prices would make it more likely that the BoE would respond with a hike. This was pre-Omicron of course, but let's see whether GBP interest rates and perhaps spot FX also start to derive some support here.

Elsewhere, today's UK jobs data looks encouraging in that the claimant count continued to drop in November despite the ending of the furlough scheme in September. On another day that might have supported BoE tightening expectations and the pound but, as it is, Omicron dominates. Cable support at 1.3170/3200 is holding for now.

## ⬆ BRL: BACEN intervention looks a seasonal pattern

Intervening in FX markets also to sell dollars currently is BACEN, Brazil's central bank. It does this via spot USD auctions and yesterday sold US\$905n following a further spot auction last Friday. The move appears to be seasonal activity to meet FX demand for repatriation of BRL dividends. In focus here are the dividends being paid out by Petrobras. In October, Petrobras announced that an additional BRL31.6bn (US\$5.5bn) would be paid to shareholders in December, effectively doubling what had already been announced. However, the Brazilian government and state institutions own around 60% of Petrobras, so the amount of FX intervention needed to stabilise the BRL may not be quite as large as it seems. And this intervention should not be considered as any kind of line in the sand in USD/BRL at 5.70/75 - unlike Turkey where the local authorities seem to be responding to USD/TRY trading over 14.00.

An additional point to make about BRL - and a positive one - is that it seems as investors like the

long end of the bond market. Here 10 year local currency yields have fallen about 250bp over the last six weeks - perhaps on the view that BACEN's aggressive hikes will be enough to tame inflation. With short-dated implied yields so expensive (e.g. 3m BRL implied yields through the Non Deliverable Forwards at 9% per annum), FX hedging bond investments looks very difficult indeed. Thus we should keep an eye on potential bond inflows into Brazil as a potential support to the BRL. As we discuss in our [Latam 2022 FX Outlook](#), we think 2022 will be a difficult year for the BRL. But bond inflows could be one factor that helps keep USD/BRL resistance at 6.00 intact.

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