



## Pivotal Week Ahead

Market Report 12/12/22 - By Sam Balla-Muir

### USD

The US Dollar continued showing broad-based weakness after comments by Fed Chair Jerome Powell and at least two FOMC board members indicated that the Fed was willing to follow a path of moderation in its future interest rate decisions. A gradual lowering of consumer inflation over the last four months and a 3-percentage-point drop in the Core PCE Price Index (m/m) are indicators that the aggressive rate hike pathway the Fed has followed is starting to deliver the expected outcomes.

The CFTC's report on the commitment of institutional traders indicated that net speculative shorts on the US Dollar for the week ended 6 December rose from \$938 million to \$2.23 billion. This increase is the largest in 18 months and reflects a front-loaded bias toward a softer pace of rate hikes by the Fed and a weaker dollar as a consequence.

The Fed decides on its new interest rates on Wednesday, 20 December, preceded by November's Consumer Price Index (CPI) will be released. The retail sales data will be out on Thursday, 21 December. Given the release of other major news from the UK and the Eurozone, the market can expect significant activity on the GBP/USD, EUR/USD, USD/JPY and USD/CHF all through the week.

Any incursions by the US Dollar against its peers will face significant roadblocks this week from the market expectation of a 50-bps rate hike by the Fed. If the CPI data show continued lowering of consumer prices in the US, this would reinforce the opposition to any further moves of the US Dollar to the upside. Rate hike decisions from the European Central Bank (ECB), Bank of England (BoE) and Swiss National Bank (SNB) will also present

further tests of dollar performance this week. Signals of greater hawkishness than expected from the ECB and BoE could present a pushback opportunity for riskier assets.

### **GBP**

The Pound closed softer last week against the greenback following four weeks of bullish action. This week holds the potential for some good volatility as there are numerous high-impact news releases from both sides of the Atlantic divide. The week kicks off on Monday, 12 December, with the release of the latest Gross Domestic Product (GDP) figure. The employment numbers and the UK's Consumer Price Index data are also due for release later in a week that also features the latest BoE rate decision.

The BoE had, in its previous commentary, indicated that it would not raise rates as much as investors anticipated. The BoE expects a weaker economy to balance out the impact of inflation, negating the need for an aggressive rate hike pathway. Traders will be monitoring Monday's GDP data, even though this won't impact the rate decision of 20 December. However, it will provide the basis for future rate expectations. The pace of rate adjustments on both sides of the Atlantic could determine the GBP/USD's direction heading into the new year.

The technical price picture supports the pair's continued recovery, but support for this has to come from a softer Fed and a more aggressive BoE. US 2-year bond yields currently stand at 4.353%, while the UK 2-year bond yields come in at 3.405%. Aggressive action from the BoE and supporting Claimant Count, GDP and manufacturing PMI data could push the cable towards new multi-week highs.

### **EUR**

The Euro has had an underwhelming year, crashing below parity with the greenback at a point. Last week's warnings from big banks about the global economic outlook soured risky sentiment, and the EUR/USD closed flat.

Interest rate decisions out of Brussels, England, the US and Switzerland will bring the EUR/GBP, EUR/USD and EUR/CHF into focus. The performance of the Euro pairs will be a function of the scale of any rate adjustments made by the individual central banks.

The European Central Bank is expected to raise interest rates by 50 basis points, with governing council member Gabriel Makhouf saying that an adjustment to 2.50% was the "minimum needed" to send inflation back to the bank's 2% target. The ECB has conducted two 75 bps rate hikes in its most recent meetings. The market sentiment is tilting towards moderation of rate hikes by the ECB. Traders intending to trade the EUR/USD will have to pit the ECB against the Fed to see who outdoes the other.

### **The Week Ahead**

This week's main events in the US are the November Consumer Price Index (CPI) data and the FOMC Interest Rate Decision. Other high-impact data out of the US include the Empire State Manufacturing Index and the Retail Sales figures.

Across the Atlantic, there will also be interest rate decisions out of England, Switzerland and the Eurozone. The week ahead will also feature the UK Claimant Count Change, the Consumer Price Index (y/y) and a speech by BoE Governor Andrew Bailey at the Financial Stability Report event in London. Employment data from Australia and New Zealand's Gross Domestic Product number on Wednesday 14 December are additional triggers which will provide some volatility on Asia's risky currencies.

### Last Week's Changes In Exchange Rates

Exchange Rate%- change on week

\$ per £	- 0.50
\$ per €	0.00
€ per £	0.00

### Key Events

Date	Market	Time (GMT)	Release/Event Period	Previous	Analysts' Expectation
Tue. 13th	US	13.30	CPI Y/Y	Nov. 7.70%	7.30%
Wed. 14th	UK	07.00	CPI Y/Y	Nov. 11.10%	10.90%
Wed. 14th	US	19.00	Official Bank Rate	Dec. 4.00%	4.50%
Thu. 15th	EU	13.15	Official Bank Rate	Dec. 3.00%	2.50%
Thu. 15th	UK	13.45	Official Bank Rate	Dec. 3.00%	3.50%