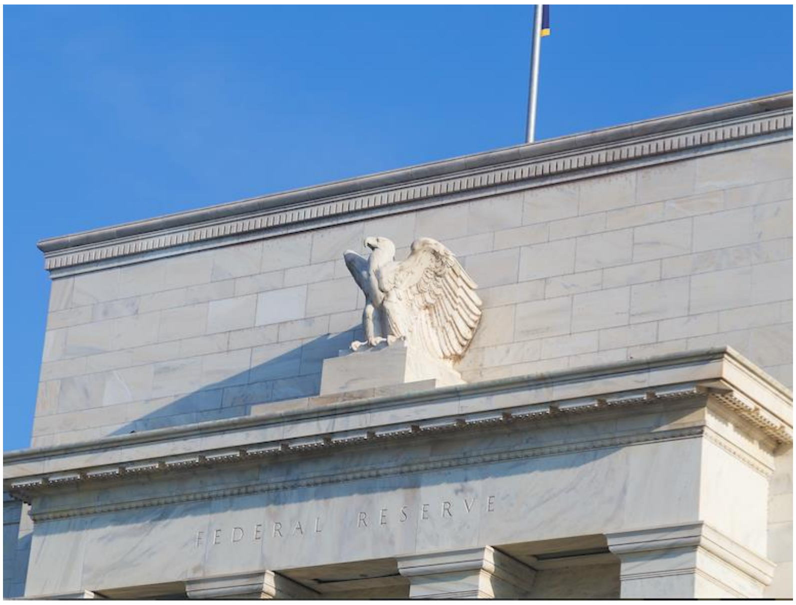

Dovish Fed sinks US Dollar

Market Report 28/11/22 - By Sam Balla-Muir

USD

Last week we saw the US dollar weaken against the pound to levels not seen since the beginning of August. This was due to a somewhat Dovish stance from the Fed following the release of their Meeting Minutes. This was despite strong figures coming out of US durable good orders and renewed fears of Covid outbreaks across China sparking mass protests which would in turn prompt renewed safe-haven demand for the dollar. Ahead of Wednesday's meeting minute's, the November Flash PMI's showed activities were at the second lowest levels since the pandemic begun. Jobless claims rose to a three week high which is most likely as a result of higher borrowing costs. As a result of these meeting minutes, it is now anticipated that the Fed will slow its rate hikes, with it peaking to around 5% in May next year – this is what prompted the biggest moves in the currency markets last week. The Fed's main concern that a tight U.S. labour market will drive strong wage growth. They see this as a key driver for inflation and therefore a 0.5% interest rate hike in December remains on the cards to keep inflation under control. The release of PCE figures on Thursday and Friday's Non Farm employment data release will both serve as a good indication for what to expect in next month's meeting.

GBP

The pound has benefitted over the last week as global risk appetite improves. This is largely due to safe-haven demand for the dollar falling. The pound was able to shrug off 21-month low PMI prints last week despite data showing that new orders in the manufacturing sector had fallen at the fastest pace since January 2021. Despite this, the pound also benefitted from the Supreme Court ruling that the Scottish Government cannot hold a second referendum on Independence next year without British parliamentary approval. Brexit has also returned to the headlines, with Rishi Sunak appearing to adopt a much softer approach towards negotiations. There is some optimism in the market that a closer trading relationship between the UK and eurozone may be on the cards. As the pound approaches its 200 day moving average we may see some more upside in the short term as larger institutions bet on further possible upside. However, looking further ahead my view is that whilst the pound has recovered much of the losses sustained following the Mini-Budget, I am unconvinced this rally will last due to the mounting headwinds against the UK economy. High energy costs are likely to keep inflation high in the short term and the UK is still the only country in the G7 where output has not yet regained its pre-pandemic levels. The OECD expects the UK to be the worst performing economy in the G20 bar Russia over the next two years.

EUR

Lower energy costs in the eurozone and milder weather has helped the euro climb against other pairings as of late. The EUR remains susceptible to volatile swings due to its exposure to the war in Ukraine. I am of the view that due to the eurozone's reliance on Russia's gas supplies and a colder winter ahead could be a catalyst for EUR weakness over the months ahead. Last week Producer Prices in Germany fell over the month for the first time since May 2020. This may prompt a less aggressive ECB in combatting inflation and therefore we may see increased selling pressure on the euro. In addition, meeting minutes from the ECB last week indicated that policymakers have expressed concern about a possible recession which could further impact the rate at which rates increase in the future.

The Week Ahead

There is a raft of data due to be released from the US this week that are likely to impact other currencies and the broader financial markets. GDP data (this Wednesday) and non farm employment data on Friday will give us a good gauge in terms of the jobs market and economy as a whole. Whilst the Core PCE data release on Thursday will offer insight into how far the Feds tightening of policy has gone to combat inflation among US businesses. I would also expect Tuesday's speech by Bank of England Governor Andrew Bailey to create some volatility on the Pound. The week ahead looks relatively quiet in terms of data releases from the eurozone.

Last Week's Changes In Exchange Rates

Exchange Rate	%- change on week
$ per £	+ 2.60
$ per €	+ 0.65
€ per £	+ 0.95

Key Events

Date	Market	Time (GMT)	Release/Event	Period	Previous	Analysts' Expectation
Tue. 29th	UK	15.00	Andrew Bailey Speech	Nov.	-	-
Tue. 29th	US	15.00	Consumer Confidence	Nov.	102.5	100
Wed.23rd	US	13.30	Prelim GDP Q/Q	Nov.	2.6%	2.8%
Thu.1st	US	13.30	Core PCE M/M	Nov.	0.5%	0.3%
Fri. 2nd	US	13.15	Non Farm Employment Change	Nov.	239k	200k

Currency Moves

Exchange Rate	%- change on week
€ per £	-0.38
$ per £	-1.22
$ per €	-0.48

Key Events

Date	Market	Time (GMT)	Release/Event	Period	Previous	Analysts' Expectation
Wed 2nd	EZ	10.00	Euro-zone CPI Inflation (% y/y)	Feb.	5.1%	5.3%
Wed 2nd	US	15.00	Fed Chair Powell's Testimony	-	-	-
Fri 4th	US	13.30	US Non-farm Payrolls	Feb.	467,000	350,000