

Traders' Take

The Week Ahead in Foreign Exchange & Precious Metals

18 November 2024

Macro Overview

Last week brought us only minor changes in market sentiment, as the perception of U.S. exceptionalism continues to dominate. Though growth concerns in the Eurozone and expectations of ECB rate cuts found a floor, the disparity between the optimistic expectations for a MAGA-fueled U.S. economy and the recessionary outlook for Europe remains significant.

While we remain skeptical of this divergence, we keep our risk close to home with some minor EUR positions against USD and GBP (BS EURGBP and BS EURUSD up to 12m).

This week brings us Central Bank Decision in Hungary (Tue., no change expected), Turkey (Thurs., no change expected) and South Africa (Thurs., -25bps expected). In addition to that, UK CPI (Wed.), preliminary PMIs and SNB President Schlegel's speech (Fri.) are this week's highlights. (PM)

Table 1.

Central Bank Meetings

Date	Area	Event Name / Comment
19.11.2024	HU	Hungary Central Bank Interest Rate Decision
	TU	Central Bank of Turkiye Interest Rate Decision
	ZA	South African Reserve Bank Interest Rate Decision

Other Selected Upcoming Economic Events

Date	Area	Event Name / Comment
19.11.2024	CA	CPI
	EA	CPI (Oct final)
	US	Housing Starts, Building Permits
20.11.2024	GE	PPI
	UK	CPI (Oct), PPI (Oct)
21.11.2024	US	Existing Home Sales, Philly Fed Business Outlook
22.11.2024	AU	PMI (Nov Prel)
	CA	Retail Sales
	EA	PMI (Nov Prel)
	GE	PMI (Nov Prel), GDP (Q3 final)
	UK	PMI (Nov Prel), Retail Sales
	US	PMI (Nov prel), Univ of Mich Sentiment

Sources: Bloomberg, Refinitiv, ZKB

Interest Rates & FX Swaps

CHF Funding

Producer and import prices in Switzerland fell by 0.3% in October compared to the previous month, with producer prices down 0.3% and import prices down 0.4%. Compared to October 2023, the price level of the whole range of domestic and imported products fell by 1.8%, with producer prices falling by 0.5% and import prices by 4.4%. The downward trend has accelerated slightly again, but the stronger US dollar should take some pressure off import prices. All in all, implicit interest rate expectations have hardly changed. Currently, around -38 bp are priced in for December, a further -27 bp for March and a further -12 bp for June, with terminal SARON at 0.18% slightly above the previous lows. (DM)

EUR&CHF Derivatives

The EUR short-end is finally selling off after the relentless rally triggered by the upcoming Trump presidency (Tariffs and German elections). Despite today's sell-off we still feel like EUR rates are too low still, especially vs the US. We think the German economic disaster might actually be a blessing in disguise as it allows more unity within Europe and maybe important steps closer to fiscal unity, as the German power at the negotiation table – especially over the periphery – has been substantially weakened now. Now is the time for Europeans to step up reform efforts. (MK)

USD Derivatives

The post-election sell-off in the short end has lost a little bit of its steam and suddenly markets are realizing that 75bps worth of cuts over the next 12 months aren't an awful lot, especially when putting them up vis a vis of EUR, where a total of 142bps are penciled in. The turn is moving extremely quietly and has traded down to a stable +140bps of premium for USD cash over SOFR in the EURUSD FxSwap market. However, EURUSD might not be the best reference point for USD cash, as there seem to be things happening in the EUR cash market itself (Bund repo no longer any specialness, Sep/Oct turn spiked to levels above ESTR, German paper asset swap spreads moving positive triggering moves in the long end of the EUR cross currency swap market, just to name a few...). (MK)

GBP Derivatives

Last week's data releases failed to move the SONIA strip markedly with downside misses in Unemployment (4.3% vs. 4.1% expected) and GDP (QoQ 0.1% vs. 0.2% expected) and still sticky Average Weekly Earnings (4.3% vs. 3.9%) being shrugged off by the market.

In the same way Pill reiterating a gradual approach to policy normalization and Mann (again) emphasizing her concerns around sticky service inflation failed to have a meaningful impact, while Bailey on Friday did not refer to Monetary Policy at all. Interestingly, Mann again brought up the possibility of aggressive cuts once inflation targets are sustainably achieved – something that could become relevant next year.

Consequently, Bank Rate expectations followed the still MAGA-driven sell-off in US rates, leaving us with a total 66bps of cuts priced by DEC 25, implying a bit less than one cut per quarter.

This week brings us CPI (Wed.) and PMIs (Fri), where another downside miss in inflation might disrupt the recent sync between US and UK rates. Additionally, speeches from Ramsden on Wednesday and Mann on Thursday will be closely watched. Ramsden's comments might be particularly important, as he was the first internal member to openly advocate for a rate cut in August.

Basis-wise we saw significant tightening against EUR (BS EURGBP interest) especially among the longer end (6m onwards). Besides general interest to BS EUR, increased GBP supply via the BoE STR facility and moderate BoE rate cut expectations might have increased the interest to SB GBP. (PM)

FX Spot

EUR/USD - 1.0540

EURUSD managed to slowly recover recently since the 1.0496 low printed on last Thursday. Today's low at 1.0525 is also slightly higher than Friday's low at 1.0517. The pair still feels heavy but the daily RSI entered oversold territory with a current reading of 30. The Trump trade will remain in focus with the market awaiting further guidance about potential tariffs which will have significant implications for inflation. The European calendar includes various ECB speeches, e.g. from Nagel at 09:00 CET and Lagarde at 19:30 CET. Tomorrow the Eurozone CPI is due, followed by the ECB publishing the Euro Area Negotiated Wages on Wednesday. The Eurozone consumer confidence will be released on Thursday, with German GDP and various European PMI data following on Friday. The US calendar includes Initial Jobless Claims and Leading Index on Thursday. On Friday the US PMI data plus the University of Michigan Sentiment are due. (PBA)

EUR/CHF - 0.9355

Last week's high and low in the cross were 0.94-figure and 0.9340 respectively. The October low was at 0.9335. These levels will act as the first resistance and support, while expecting continued range trading in the short term. The 50-dma at 0.9396 provides further resistance. A closing above the 0.94-figure is needed to attract more upside interest towards the 100-dma at 0.9468. In USDCHF some consolidation occurred after the pair reached a 0.8916 high and a daily RSI reading of 73 on last Thursday, now having drifted slightly lower to 69. The major support lies at 0.8821 where the 200-dma is located. For USDCHF too the development of the Trump trade and the UST moves will remain very relevant. This week's Swiss calendar is light with SNB's Tschudin speaking on Thursday at 18:00 CET and Schlegel on Friday at 13:40. (PBA)

FX Options

EUR/CHF

In the absence of impulses last week, the very narrow range of 0.9395-0.9345 is not surprising. ATM vola remained practically unchanged. Currently 1M is trading at 5.60% (+0.40), 3M at 5.325% (-0.05) and 6M at 5.50% (-0.025). The higher level in the 1M can be explained by the newly included ECB and SNB interest rate meetings. Until then, the impulses could be largely absent and thus the risk of slightly weaker vola's in the coming days is still given. (RK)

EUR/USD

The vol market remains nervous and sentiment is changing by the hour. Implied vol is holding up well, supported by realised vol. The risk is mainly seen to the downside and risk reversals moved further in favour of EUR put during the course of last week. As reference we are marking the 3M 25D R/R at 1.00 for EUR puts this morning. For the usual ATMs we are a tad higher than a week ago with the 1M straddle at 7.700 % (+0.250), the 3M at 7.400 % (+0.300) and the 6M at 7.375 % (+0.350). Our feeling is that liquidity is getting thinner and as such the market has a harder time to absorb flow, contributing to the choppy market. We are holding on to our positioning from last week of being long the term structure, i.e., 1-2M against 3-6M. (JA)

PM

XAU - 2594

Technically speaking, last week gold panic sold-off USD/oz 121 (-4.53%) which was the worst week of this year. The yellow metal opened at \$2,684 and the big sell-off started right away on Monday and kept trading lower until Friday and closed the week at \$2563. The daily uptrend pivot support at \$2,705 was broken and immediately started to act as strong resistance. The seasonality for Gold remains negative until end of November which is currently confirmed by the bearish price action. In the two days following the Republican candidate's win, the gold performance was the worst in at least 13 US presidential election windows. The Gold price has dropped almost 7% since election day, even as several other asset classes enjoy a post-campaign boost. Gold's slide is a marked turnaround for a commodity that had surged by more than 30% in the year leading up to the US vote, hitting record after record as geopolitical and economic risk drew investors in. Since Trump's re-election the U.S. dollar rallied which is negative for bullion as it's priced in the US currency. At the same time, the US economy appears to be in pretty good shape, with inflation easing and the Federal Reserve not in a rush to keep lowering interest rates. This week's highlights will be on Friday US University of Michigan sentiment exp. 73.5 vs last 73.0 (SRW).

Resistance: 2621 / 2677

Support: 2541 / 2490

Table 2.

OIS RATE EXPECTATIONS - MARKET PRICING

USD FED RATES PRICING (FedFunds)

Current O/N Fixing 4.33%

Month / Step / Accum. / Yield / Chg
Nov / 11 / 11 / 4.44% / 0
Dez / -8 / 3 / 4.36% / 0
Jan / -14 / -11 / 4.22% / 1
Mär / -8 / -19 / 4.14% / 1
Apr / -11 / -30 / 4.03% / 1
Jun / -8 / -38 / 3.95% / 0
Jul / -5 / -43 / 3.9% / 0
Sep / -3 / -46 / 3.87% / 0

EUR ECB RATES PRICING (ESTR)

Current O/N Fixing 3.165%

Month / Step / Accum. / Yield / Chg
Dez / -30 / -30 / 2.87% / 1
Feb / -30 / -60 / 2.57% / 4
Mär / -29 / -89 / 2.28% / 7
Apr / -19 / -108 / 2.09% / 8
Jun / -15 / -123 / 1.94% / 9
Jul / -7 / -130 / 1.87% / 9
Sep / -5 / -135 / 1.82% / 8
Nov / -1 / -136 / 1.81% / 8

EUR vs. CHF spread (ESTR - SARON)

CB Main Policy Rates = 240 bps

CB *lowest* Depo Rates = 275 bps

Actual Market O/N Fix = 221 bps

	Diff to O/N
Dez24 = 213 bps	-8
Mrz25 = 184 bps	-37
Jun25 = 164 bps	-57
Sep25 = 164 bps	-57
Dez25 = 165 bps	-56
Mrz26 = 170 bps	-51
Jun26 = 171 bps	-50
Sep26 = 172 bps	-49

CHF SNB RATES PRICING (SARON - 3M IMM GAP) EUR ECB RATES PRICING (ESTR - 3M IMM GAP)

Current O/N Fixing 0.955%

Month / Step / Accum. / Yield / Chg
Dez24 / -38 / -38 / 0.58% / 0
Mrz25 / -27 / -65 / 0.31% / 1
Jun25 / -12 / -77 / 0.19% / 1
Sep25 / -2 / -79 / 0.17% / 1
Dez25 / 1 / -78 / 0.18% / 2
Mrz26 / 1 / -77 / 0.19% / 1
Jun26 / 3 / -74 / 0.22% / 1
Sep26 / 3 / -71 / 0.25% / 1

Current O/N Fixing 3.165%

Month / Step / Accum. / Yield	EUR-CHF YIELD DIFF
Dez24 / -46 / -46 / 2.71%	213
Mrz25 / -56 / -102 / 2.15%	184
Jun25 / -32 / -134 / 1.83%	164
Sep25 / -2 / -136 / 1.81%	164
Dez25 / 2 / -134 / 1.83%	165
Mrz26 / 6 / -128 / 1.89%	170
Jun26 / 4 / -124 / 1.93%	171
Sep26 / 4 / -120 / 1.97%	172

Inflation Expectations - Market Pricing

	5y5y (%)	Daily Δ	3-Month Δ
USD	2.555	0.012	0.173
CHF	-	-	-
EUR	2.110	0.006	-0.015
GBP	3.254	-0.009	-0.017

Table 3.**Selected G10 Option Volatilities**

	1-Week	1-Month	2-Month	3-Month	6-Month	1-Year
EUR/USD	7.76	7.72	7.44	7.38	7.33	7.24
MTD Δ	-3.79	-0.27	0.25	0.44	0.74	0.67
USD/CHF	6.91	7.36	7.15	7.09	7.20	7.36
MTD Δ	-4.16	-0.51	-0.25	-0.15	0.11	0.16
EUR/CHF	5.18	5.62	5.33	5.34	5.54	5.68
MTD Δ	-1.49	-0.16	-0.47	-0.46	-0.28	-0.20
USD/JPY	10.48	10.66	10.76	10.71	10.56	10.31
MTD Δ	-6.32	-2.21	-1.75	-1.11	-0.56	-0.22
GBP/USD	7.61	7.56	7.57	7.66	7.91	8.21
MTD Δ	-4.45	-1.06	-0.36	-0.09	0.29	0.42

Selected FX Option Risk Event Pricing (ATM Straddles)

Date	Event	CCY	O/N Volatility		Pips	
			Actual (WTD Δ)	Event (WTD Δ)	Actual (WTD Δ)	Event (WTD Δ)
12-Dec-24	ECB	EUR/USD	10.15 (1.35)	12.5 (2.325)	44.75 (5.5)	55.25 (8.75)
12-Dec-24	SNB	USD/CHF	8.9 (1.1)	15.3 (1.15)	33 (4.25)	56.5 (4.5)
18-Dec-24	FOMC	EUR/USD	10.15 (1.35)	14.55 (0.9)	44.75 (5.5)	64.25 (3.5)

Selected G10 Implied - Realized Volatility Spreads

	Tenor	Implied Vol.	Realized Vol.	Spread
EUR/USD	1-Month	7.72	9.23	-1.51
	1-Year	7.24	5.92	1.32
USD/CHF	1-Month	7.36	7.71	-0.35
	1-Year	7.36	7.09	0.26
EUR/CHF	1-Month	5.62	3.72	1.90
	1-Year	5.68	5.39	0.29
USD/JPY	1-Month	10.66	12.59	-1.93
	1-Year	10.31	10.51	-0.20
GBP/USD	1-Month	7.56	8.39	-0.83
	1-Year	8.21	6.32	1.89

Sources: Bloomberg, Refinitiv (formerly Thomson Reuters), ZKB

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