

Fed decision won't change dollar outlook

The Federal Reserve is expected to signal a December rate hike later. But the move is already priced in and expectations for future hikes haven't changed in the wake of the midterm elections, suggesting that meaningful dollar gains are unlikely



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➔ USD: FOMC doesn't alter current risk environment

The focus shifts to the FOMC meeting today. While rates are widely expected to remain unchanged, the FOMC remains firmly on the course of tightening and should continue to signal “gradual” rate hikes ahead, setting the markets up for a December move. But with the December hike priced with an 80% probability and another two hikes priced in for 2019, the bar for the FOMC to send the US dollar meaningfully higher today is set very high, particularly after the outcome of the US mid-term elections which suggests a lower likelihood of more fiscal stimulus (see [US midterms: a case of the blues...](#)) and thus an even more hawkish Fed.

Still, the overhang of a strong US dollar for months to come should act as a brake on more pronounced and longer lasting emerging market FX gains. While the across the board rise in equity markets is supportive for this asset class, rising US funding costs and a firmer dollar are not. Yet for the short term, our tactical preference remains for emerging market high yielders rather than G3 low yielders (vs USD), as the former benefits more directly from rising stock markets.

⬇️ EUR: Staying firmly below the 1.1500 level

In line with the wider global FX trend, the post US midterm elections spike in EUR/USD stalled, with the 1.1500 level acting as firm resistance. With the Fed unlikely to change its course and forward guidance today, EUR/USD upside is fairly limited. From a short-term perspective, we see EUR as a good funding currency for tactical emerging market FX longs ([see yesterday's FX Daily](#)). In Sweden, the Riksbank's Stefan Ingves and Martin Floden speak in open hearings on monetary policy today. We expect them to remain non-committal on the exact timing of the first rate hike (ie, either December 18 or February 19). The reaction of EUR/SEK should thus be limited.

➡️ RSD: Central bank to stay on hold

With core inflation muted at 1.1% in September, and the headline rate quite well-behaved at 2.1% (from 2.6% in August), the National Bank of Serbia has little reason to change its stance today. No impact on the Serbian dinar is expected and the EUR/RSD should remain stable without too much central bank support.

⬇️ HUF: Higher CPI a modest short-term negative

Our economists expect Hungarian October CPI today to rise to 3.7% year-on-year (vs the 3% target and 4% upper tolerance band) on the back of energy and food prices, with core inflation remaining roughly unchanged. While the knee-jerk reaction may be modestly negative for the forint (HUF), as the inflation targeting credibility of the National Bank of Hungary may be questioned again, we don't look for pronounced weakness, as CPI should move lower in the following months and the central bank has already announced a gradual roadmap towards policy normalisation. Coupled with meaningful short HUF positions, EUR/HUF upside should be limited and bound by the 323.00 level.