

FX Daily: 50bp cuts and 100bp hikes show fiscal/monetary mix

As year-end fast approaches, central banks make their final monetary policy adjustments. Canada delivered a 50bp rate cut yesterday, while Brazil delivered a 100bp hike – because fiscal policy is too loose and inflation expectations have gotten out of hand. Today it's all eyes on the ECB and the SNB. 25bp cuts are consensus, but 50bp is possible too



New Swiss National Bank President Martin Schlegel

USD: Dollar wins out as trading partners slash rates

The dollar remains well supported this December as trading partners move to cut interest rates quite quickly. Canada has now delivered [back-to-back 50bp rate cuts](#) and central banks in Europe could deliver cuts of a similar magnitude today. At the same time, a raft of source stories in Japan suggest that the Bank of Japan will not be hiking next week after all. That is helping USD/JPY up to the 153 level. And yesterday morning the dollar also got a bid from a source report that China is considering a softer renminbi. That is not our baseline view, but were it to occur it would shift the narrative to competitive devaluations and 'currency wars', which would be dollar-positive given the strength and relatively closed nature of the US economy.

Back to the US domestic story, there were no real surprises in [yesterday's CPI data](#) and the market has firmed up its view that the Fed can cut by 25bp next week. This move will be characterised as the Fed taking the opportunity to deliver less restrictive policy while it can. For today, all eyes will be on Europe, but in the US we'll focus on the November PPI reading. Any upside surprise – and what it means for next Friday's release of the core PCE deflator – could prove a minor dollar positive.

We see no reason to leave the safety, liquidity and high yield (one-week deposit rates at 4.55% p.a.) of the dollar and DXY risks a move towards 107 if the ECB is sufficiently dovish today.

Chris Turner

📌 ECB: We're looking for a dovish ECB today

The market has firmed up its view that the ECB will cut by 25bp today. Our team agrees, although does not completely rule out the [chances of a 50bp cut](#). We think there could be some downward revision to growth and perhaps even inflation forecasts today. In focus will be whether the ECB reduces these inflation forecasts which in September were set at 2.5%, 2.2% and 1.9% for 24, 25 and 26 respectively. For example, dropping the 2025 forecast closer to 2.0% could potentially lay the path for an accelerated easing cycle.

Market pricing of the ECB already sees rates being cut into accommodative (sub-2%) territory next summer. But as our rates team [discusses here](#), that pricing could drift even lower. Overall we remain bearish on EUR/USD and don't see the case for the ECB to aggressively push back against current market pricing. However, there is quite a large FX option expiry around 1.0550 today and we cannot rule out EUR/USD having to consolidate around here or trading 1.0550 at the 16CET option expiry today if Christine Lagarde has not sufficiently fed the euro bears.

Elsewhere, the Swiss National Bank announces its policy decision at 0930CET. We and most in the market are looking for a 25bp rate cut to 0.75%, largely because the SNB does not have too much downside to play with when it comes to monetary policy. Local accounts, however, think a 50bp rate cut is a real possibility with presumably a dovish press conference. Here, new SNB President Martin Schlegel could reiterate a speech last month that the policy rate could be taken negative again and that forceful FX intervention remains in the SNB policy toolkit – despite the threat of being branded a currency manipulator by the incoming Trump administration.

EUR/CHF could briefly spike to 00.9330/50 if the SNB sounds dovish today. But expect a lot of sellers to emerge since there is a growing consensus that EUR/CHF will head to 0.90 next year.

Chris Turner

➡ CEE: ECB as a downside risk for the region

The region switched to muted mode with a quiet calendar in the second half of the week. The market seems to be waiting for the ECB decision and even the lower EUR/USD didn't change much on the CEE currencies yesterday. The Czech National Bank blackout period starts today and potentially we may still see some headlines. However, in the last few days, the board has been very active but overall the message is clear.

A December pause in the cutting cycle will be on the table and from the tone of the interviews we would say that is the primary scenario for most of the board. A pause in December and February is

the baseline of our economists. Board members mention the February forecast as a possibility for additional rate cuts if January inflation is kept in check. While December seems like a done deal, February is open depending on the numbers in the meantime.

Today's CEE trading will depend heavily on the ECB's tone. Given the strong levels and rally in PLN and CZK over the past two weeks, we see risk on the downside coming from the possible dovish tone of the ECB. Both currencies have been showing resistance to further strength for the last three days and any signs of weakness on the European side in the ECB comments could lead to profit-taking in our view.

Frantisek Taborsky

BRL: The central bank strikes back

Brazil's central bank, BCB, aggressively hiked rates by 100bp to 12.25% last night and promised two further hikes of a similar magnitude. The phrase 'getting ahead of the curve' seems appropriate here as the BCB delivers a forceful signal that the rise in inflation expectations will not be tolerated. In addition, BCB announced a \$4bn FX auction today to provide liquidity to the spot market. This aggressive move could carry USD/BRL back to 5.80/85 today.

However, this aggressive rate hike is entirely down to the loose fiscal policy of the Lula administration and the damage it has done to the exchange rate. Unless some credible fiscal consolidation package is announced, the BRL will stay vulnerable. Our position is that fiscal consolidation will be difficult in the run-up to the 2026 Presidential election, and combined with the new US administration's trade war on China – and the threat of secondary sanctions on Brazil – USD/BRL will probably head up to the 6.25 area.

Chris Turner

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.