

## FX Daily: A taste of what's to come

Markets were quick to buy USD after a minor correction as US CPI was released yesterday. This move might reflect expectations for the coming year, as a USD-positive policy mix under Trump is likely to drive sustained bullishness for the dollar. In the near term, the positioning picture points to a deeper USD correction, but that may also be short-lived



John Thune's election as Republican Senate leader might cause problems for Trump

### 📌 USD: Bullish sentiment seemingly untouched

Our very [first key FX advice for 2025](#) is not to overthink dollar strength and to trust the general direction of a stronger dollar on the back of Trump's domestic and trade agenda. We think this week's price action has given us a taste of what's to come in FX markets in this second Trump term, with brief dollar corrections (like after yesterday's US CPI print) taken as an opportunity to enter structural USD longs at more attractive levels.

US political news has continued to flow. The House has finally – and unsurprisingly – been called for the Republicans, confirming Trump will be able to control all levers of government at least until the mid-term elections in 2026. Meanwhile, cabinet appointments have so far been dominated by Trump's loyalists, which is a shift from the first term that likely implies a more centralised decision-making process around the president's figure. One minor potential setback for Trump was John

Thune's election as Republican Senate leader. Thune is an advocate of free trade and political analysts are pointing to potential frictions over Trump's aggressive protectionism.

Despite our view that the dollar will stay strong throughout next year, the very short-term picture still looks a bit more nuanced as long dollar positioning is starting to look quite stretched and a wider (albeit not long-lived) dollar correction could be on the cards. One catalyst might be today's PPI numbers, which have a greater relevance for the core CPE – the Fed's preferred measure of inflation. Expectations are for a re-acceleration in headline PPI from 0.0% to 0.2% MoM, with the core measure flat at 0.2% MoM. Any sub-consensus print can have an asymmetrically negative effect on the dollar.

Another big event today is the speech by Fed Chair Jerome Powell in Dallas. The focus will be on the economic outlook, and there is a Q&A where he may be asked about the latest inflation figures and implications of protectionism for monetary policy. Also here, the risks are skewed to the downside for the dollar given stretched positioning, as Powell may want to shy away from linking Trump's expected policies and the Fed's decisions. That could be read as a slightly dovish message and prompt some repricing lower in a USD OIS curve that is quite conservatively only pricing in 50bp of easing by mid-2025.

A positioning-led correction in USD may fail to take DXY back below 106.0, and interest in buying the dollar dips will likely emerge soon.

*Francesco Pesole*

## EUR: Building risk premium

We have long discussed how the wide short-term swap rate spread between USD and EUR is justifying a good deal of the ongoing EUR/USD selloff. However, when we add other market factors in estimating the near-term fair value of EUR/USD – such as equities and commodity prices – there are signs of a growing risk premium in excess of 1.5%.

Does that imply a 1.5%+ correction higher in EUR/USD is due? Not necessarily. We strongly believe that since 5 November we have entered a phase where a euro-negative risk premium will become the new normal given the risks to the eurozone associated with Trump's foreign/trade agenda. From that perspective, and looking at historical dynamics, a 1.5% risk premium would still be rather contained, as that can easily amount to 4%+ should markets price in more geopolitical and/or protectionism-related risks.

For now, we believe some sort of EUR/USD upside correction is plausible, but we still believe markets will take the opportunity to sell the rallies in the pair, and a long-lasting return above 1.070 does not seem likely.

Today's eurozone calendar includes the first revision of 3Q EZ GDP and employment figures, as well as the minutes of the October ECB meeting. Those could include a few dovish hints, although markets may still want to see more evidence of a slowdown in data (like PMIs) or a lower inflation print before pricing in a 50bp cut in December.

*Francesco Pesole*

## 📈 AUD: Jobs data still arguing for patient RBA

Australia released jobs figures for October overnight. Employment rose by 16k, less than expected and marking a slowdown from September's strong 61k print. At the same time, unemployment was unchanged at 4.1% with the participation rate edging 0.1% lower.

The Australian dollar was not really impacted by the release and continues to trade in line with the broader dollar dynamics. Interestingly, EUR/AUD is more than 1% weaker since election night, a signal that markets currently prefer to price in greater risks for the eurozone than for China (and by extension its proxies) when it comes to Trump's expected agenda.

Should a USD correction materialise in the next few days, we suspect AUD could rally more than other peers, as the latest data and policy communication still point to no rush by the Reserve Bank of Australia to turn dovish and markets may retain a relatively sanguine view on Antipodeans when compared to European currencies. We think a return to the 0.6550 level is possible in AUD/USD in the near term.

*Francesco Pesole*

## 📉 CEE: Restarted dollar rally will keep region under pressure

Yesterday's current account data, despite some surprises, especially in the Czech Republic, where higher dividends offset a strong surplus in previous months, remained without much reaction in the markets. Poland's data showed a shrinking current account surplus in recent months and [our economists debated](#) the reasons. Romania's third-quarter GDP data was released this morning with an acceleration from 0.9% to 1.1% YoY, below market expectations. Later today we will also see the first estimate in Poland, where we expect a slowdown from 2.9% to 2.5% YoY, below market expectations.

Markets took advantage of the pause in the USD rally yesterday, giving CEE currencies some relief. However, the USD quickly resumed its rally following the release of US inflation numbers, which we believe will put renewed pressure on CEE currencies today. Local factors are not significantly influencing trading at the moment, with global dynamics being the primary driver.

Besides GDP data, today's calendar includes government bond auctions in Poland and Hungary, which will test the market post-US election. In Poland, the last auction before the election showed weak demand, and today's auction will test the risk-off sentiment ahead of the election or due to the deteriorating local fiscal situation. In Hungary, while elevated yields should attract market interest, uncertainty about the National Bank of Hungary and high EUR/HUF remains a concern.

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