

FX Daily: Back to the central bankers

After a day dominated by the resounding success of the Republican party, FX markets today return to the more familiar territory of central bank policy meetings. These take place in the US, UK, Sweden, Norway and the Czech Republic. Rate cuts are expected in all but one of these gatherings. After gains yesterday, expect a consolidative period for the dollar



Governor of the Bank of England, Andrew Bailey

➔ USD: Back to fundamentals for the dollar

Betting markets currently give the Republicans a 93% chance of winning the House and therefore a clean sweep. Global financial markets reacted to the prospect of Donald Trump having carte blanche to pursue his policy agenda by: buying the dollar, re-pricing the Fed easing cycle higher, selling (especially longer-dated) US Treasuries, buying US equities and punishing those likely to be on the receiving end of his trade policies, such as BMW who's shares were marked down 7% yesterday. As discussed below, however, some EM currencies had been sold heavily in advance and market positioning meant they did not see a further leg lower. Indeed, the Brazilian real rally was helped by a 50bp rate hike.

The challenge for investors is how to position now. The US election event risk has passed with a surprisingly clean outcome, but Trump's policy agenda will not emerge until 2025, and perhaps not

even until late in 2025. Before then, however, the market will be subject to his social media posts and presumably his choice for top posts in his administration, such as the next US Treasury Secretary.

That is all for the future. Today very much presents a return to the state of the domestic economy and how central bankers will respond. The overriding position currently is one in which the disinflation process is true and restrictive interest rates are no longer required. That should be the core story from today's [FOMC meeting](#), where the market fully prices a 25bp rate cut. We doubt Chair Jay Powell is ready to endorse the market's less dovish re-pricing of the Fed's easing cycle by saying prospective Republican policy is inflationary. It would be a bullish dollar surprise if he did.

We do not think there is a strong reason for the dollar to hand back much of its recent gains. But it would not be a surprise to see DXY undertaking some well-earned consolidation in the 104.50-105.50 area as investors try to better understand the timings of the next market drivers.

Chris Turner

➔ EUR: Collapse of the German government says it all

As [Carsten Brzeski has been writing this week](#), the German government has collapsed. The bone of contention in the end was the use of fiscal stimulus and disagreement over the suspension of the German debt brake. This puts into stark relief the challenge for the European economy faced by a looming trade war and weak domestic demand. As Carsten writes, the prospect of a new German government next March might actually increase the chance of some fiscal stimulus and provide better ammunition for Europe to withstand Trump's trade agenda in 2025.

EUR/USD found support below 1.07 yesterday – perhaps not a surprise after a peak-to-trough drop of 2.3% on the day and even moving more aggressively than the FX options market had been pricing. While profit-taking on EUR/USD short positions could drag it back to the 1.0800 area, we tend to think EUR/USD will tend to trade in the lower half of its 1.0550-1.1150 two-year range for the rest of the year. For example, it will be interesting to see what Trump's election means for European investment intentions – the IMF had noted this as a key negative factor under increased tariffs.

Elsewhere, the market is looking for a [50bp rate cut](#) from Sweden's Riksbank today. The market prices a 44bp cut today and the bigger EUR/SEK impact would likely come from just a 25bp rate cut. Like other currency pairs, EUR/SEK has come a long way quite quickly over the last month and some consolidation may be due. But corporates might seek to take advantage of any short-term correction to the 11.55/60 area given the SEK could prove a victim of the looming trade war.

Chris Turner

⬇ GBP: BoE to cut, Bailey's communication key

The Bank of England is widely expected to [cut rates by 25bp today](#), bringing the policy rate to 4.75%. Most expect the vote count to prove 8-1 in favour of a cut, although sterling could quite easily receive a temporary boost if the vote is 7-2 or 6-3. More impactful for sterling, however, should be Governor Andrew Bailey's press conference. He's likely to be asked how stimulative he finds last week's UK budget. Recall that the budget helped the market re-price the BoE easing cycle higher by some 25bp. And we think the market's pricing of the BoE lending rate at above 4.00%

next year is too high. We think the BoE will cut more than that. We therefore think there is downside risk to UK rates and sterling today if Bailey downplays the significance of the UK budget to the BoE easing cycle.

That means EUR/GBP could enjoy a temporary spike back to the 0.8370/8400 area. Medium term, however, we increasingly expect EUR/GBP to prove a 0.82/83 story as the fall-out of trade wars weighs more heavily on the euro than the pound.

Chris Turner

📌 CEE: What election?

Most areas of the CEE asset market space look almost untouched after yesterday, which is hard to believe, and will not remain so in the days ahead. But without question, this has been a major surprise. The most frequent question yesterday from clients was why CEE FX in EUR-crosses was so stable. It is hard to find the right answer but the best guess is that the previous sell-off prepared the market for a Trump scenario and especially in HUF and PLN we believe the market was short. At the same time, the drop in EUR rates helped improve the rate differential across the board, which reduced the impact of a lower EUR/USD. Also, TRY was one of the very few currencies rallying yesterday in the EM space, but here the market may see an ideal opportunity to close long-term carry trades and reopen at higher USD/TRY levels.

However, we believe this does not make CEE FX immune to geopolitical shifts. With the eurozone generally under pressure, the threat of tariffs and a stronger dollar cannot miss the CEE region and we expect pressure on FX to resume. We believe we can see some divergence and PLN has a decent chance to outperform CZK and HUF in our view due to a reversal in short positioning, Poland's lower export and lower automotive share, its stronger economy and the National Bank of Poland still waiting on the sidelines with rate cuts. On the other hand, EUR/HUF is still teetering on the edge of 410. Although HUF resistance is surprising, it is still probably too early to expect relief here. Yet the National Bank of Hungary seems to have more time and another chance to survive this hot period without additional measures.

Today in CEE will be busy with the [Czech National Bank meeting](#) and the [NBP press conference](#) as well as some retail sales data. Yesterday the NBP confirmed rates were unchanged at 5.75% as expected and the statement brought some upward revision to the inflation forecast. The market is pricing in a first cut for March next year, while our economists see the second quarter as more likely. Thus, the NBP presser should be rather neutral for PLN in the current environment. We expect CNB to cut rates again by 25bp to 4.00% and present a new forecast including some dovish changes. We think the market is on the hawkish side here and especially in the context of the US election, we believe the market should reassess expectations in a dovish direction given the openness and weakness of the Czech economy. Today's meeting should thus be slightly negative for the CZK.

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