

FX Daily: Carry trade is proving persistent

The carry trade suffered a stress test yesterday, when one popular target currency, the Hungarian forint, had to cope with prospects of wider budget deficits. After selling off 0.7%, the forint is already coming back bid. With volatility expected to stay low, it's hard to see any major unwinds of carry strategies in the near term



The Hungarian forint came under pressure yesterday

We have published our [2026 FX Outlook: Play the ball, not the man](#). Today at 1300 CEST, we'll host a webinar to discuss our key calls for 2026 – sign up [here](#).

➔ USD: Focus on Fed's Williams speech today

In our [2026 FX outlook](#) published this week, we make the call that the low-volatility environment will extend into 2026 and carry trade strategies will remain popular. The question of whether investors have over-reached into carry was partially answered yesterday, when one popular target currency, the Hungarian forint, faced some tough news on the budget side. We discuss this in more detail below. EUR/HUF briefly rallied 0.7% on the news, but has already corrected half of that. We argue that perhaps some looser fiscal policy was already priced in by the market, but at the same time, the resilience of the forint shows a market reasonably wedded to carry trades in a

mixed environment for core markets. We also note that [Latam currencies are performing very well](#), buoyed by high carry and the metals story.

As to core markets, mixed seems an appropriate description. The dollar was briefly hit yesterday after private sector payroll firm, ADP, suggested that 11k jobs had been lost per week through October. This report used a different methodology from its recent release, showing +42k jobs created that same month. Yet the dollar did not stay offered for long and has come back a little bid overnight. Here, USD/JPY is leading the charge, where buying the Tokyo fix was being blamed for the move. One factor thought to be keeping USD/JPY supported is direct investment into the US. These potential flows have brought USD/JPY to psychological resistance at 155, where Japanese verbal intervention is picking up. However, few will want to sell USD/JPY at 155, fearing that it could easily run to 160 in thinning year-end markets and that physical intervention to sell USD/JPY probably won't come before that 160 level.

For today, the focus will be on the US House presumably passing the Senate compromise bill to reopen government, at least until 30 January. If approved, that means the US government can reopen, perhaps on Friday, and that the September NFP jobs report (potentially USD negative) can be released early next week. Before then, we have a keynote speech from New York Fed President John Williams at 1520CET today. He is seen as slightly doveish, though looks unlikely to move the needle on current pricing of a 66% probability of a 25bp Fed cut in December.

While we would love to say that the dollar made a significant high last week, the catalysts for it to come lower are not obvious right now. That's why we think DXY probably traces out a 99.25-99.75 range for the time being.

Chris Turner

➔ EUR: Dining out on the softer dollar

EUR/USD has held onto its gains this week – though that largely looks a function of the slightly softer dollar. Yesterday's release of the German ZEW expectations index for November was not particularly encouraging. However, the aggregate ZEW figure for the eurozone as a whole ticked up, questioning whether Germany is increasingly becoming an outlier.

There is no eurozone data of note today and the focus will be on ECB speakers. Here, Isabel Schnabel is speaking at 1230CET on the subject of: 'Europe Reimagined: The Path to Empowerment'. This sounds like a global euro kind of speech with a call for particular European politicians to reduce fragmentation in the eurozone and pursue policy reforms. [We discussed that topic in detail this summer](#).

We're happy that EUR/USD is trading closer to 1.16 than 1.15, but will probably require some softer US data to justify a move well above 1.16 now.

Chris Turner

⬇ GBP: Downside risks

EUR/GBP is trading back above 0.88 again after yesterday's release of surprisingly soft September unemployment data in the UK. Even though there are widespread doubts about the quality of the Labour Force Survey data (this survey was briefly suspended in 2023 to reassess its quality), sterling has failed to reclaim its losses.

A further negative today is news that PM Starmer could face a leadership challenge after the budget later this month. Even though Starmer's approval ratings are very poor, his removal would create some doubt about the future of Chancellor Rachel Reeves and add some risk premium to UK asset markets. Sterling already has enough negative news from the tighter fiscal/looser monetary policy story to keep it weak. But political noise could push EUR/GBP to new highs for the year in the 0.8870/8900 area.

Chris Turner

➔ HUF: The market absorbs a higher public finance deficit

[Yesterday's inflation](#) in Hungary was slightly lower than expected, at 4.3% versus 4.5% expected, confirming the downside risk of a stronger HUF. Detailed figures show some stagnation, but it is still not a success story. Core inflation, on the other hand, jumped from 3.9% to 4.2%, above the central bank's tolerance band, which will have to wait longer before returning to rate cuts. In the base case scenario, we expect rate cuts only in the second half of the year, but stronger FX and rate cuts by other central banks increase the risk of an earlier rate cut.

The market accepted inflation with the expected dovish movement in rates, but this was quickly overshadowed by the government's announcement of [an increase in the public finance deficit](#). This year's deficit was revised from 4.3% to 5.0% of GDP and for next year from 3.7% to 5.0% of GDP. The market reacted by steepening the curve, which increases the term premium at the long end of the curve and bonds in particular came under pressure. On the other hand, it seems that the market was expecting some such move and given the extent of the deficit revision for next year, the reaction does not seem so serious. However, we will see how the market absorbs the news today after the US market returns from the holidays and more steepening is likely.

EUR/HUF bounced up from its current lows by 0.5% but the forint erased some of the losses yesterday. This confirms our view that, to a large extent, additional spending was expected by the market before the April elections. At the same time, it suggests that this will not change the current long market view. FX thus appears to be a safer place than fixed income in the current environment, and we will likely remain at current levels below 386 EUR/HUF.

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