

FX Daily: Central banks turn a blind eye to political events

If anyone was expecting the US election result and UK budget to significantly impact the Fed and BoE policy message, they were let down by two consensus 25bp cuts and rather balanced guidance. In FX, we have seen an unwinding of post-election USD longs, but that looks more like a positioning adjustment rather than a rethink of the Trump trade



USD: This isn't a Trump trade rethink

A large portion of the election move in the dollar has been unwound. That, to us, looks more like a positioning adjustment rather than a rethink of what a Trump presidency means for global markets. Remember that markets got to Election Day broadly pricing in a Trump victory, and while the dollar spiked in reaction to the Republican clean sweep, there are perhaps some questions now on how far the dollar can rally near term given the focus is shifting back to the macroeconomic discussion.

The Fed [cut rates](#) by 25bp yesterday, in line with market expectations and consensus. The FX market was very marginally impacted and so was the rates market. If anything we saw a very

brief firming in the dollar and a small rise in yields when Chair Jerome Powell seemed to suggest a more upbeat outlook for the US economy. Ultimately, markets were seeking any indication that Powell might tweak the narrative on the back of the US election, but there was understandably no indication of that.

The dollar remains in a strong position from a rate perspective. The two-year USD swap rate is near the 4% handle, and we probably need to see some worsening in US data sentiment for markets to take that back lower.

We are in an adjustment phase after the US election moves, and with volatility falling there are some potential pockets of opportunity for pro-cyclical currencies that offer attractive yields to do well in the near term. In that sense, the Australian dollar appears well positioned as markets incidentally don't see the impact of US protectionism as a near-term threat and Beijing stimulus can help some China proxies.

Francesco Pesole

📉 EUR: We retain a bearish bias

EUR/USD traded briefly above 1.080 yesterday on the back of the broad-based unwinding of post-election USD longs. As discussed in the USD section above, this appears to be a positioning unwinding, and we doubt markets are reconsidering the negative implications of Trump's expected policies on the eurozone.

We have [published](#) a revision of our EUR/USD forecasts in light of Trump's victory. Our core view is that the new Republican administration can widen the USD:EUR rate gap further as inflationary policies slow down Federal Reserve easing while the European Central Bank could move faster with cuts ahead of some protectionism-related impact on growth. While our projected rate profile for the Fed and ECB is enough to justify EUR/USD trading below 1.05 throughout 2025, we have added a risk premium related to a potential worsening in global risk sentiment as well as idiosyncratic eurozone risk around the end of 2025 and beginning of 2026. This is when we expect the impact of US tariffs to have the deepest market impact.

Back to the short term, we think we have entered a period where EUR/USD could be oscillating around its recent range as markets shift the focus back to macro. However, the short-term rate spread argues for a weakening in the pair and the looming risks for the eurozone associated with Trump's core policies mean we retain a bearish bias on the euro.

Francesco Pesole

📉 GBP: BoE remains cautious

Our colleague James Smith makes some interesting points about yesterday's Bank of England rate cut in this [note](#). Quite importantly, he notes how the MPC has not given the market a clear conclusion of what the budget could mean for the economy, and once again there is no strong guidance on how fast rates can be cut.

Our house view on the BoE has been tweaked but not radically changed. A December rate cut is looking rather unlikely following the budget, and markets are also pricing in a very small implied probability. At the same time, we don't think the budget will significantly derail the BoE's easing path next year, and we still expect faster cuts in the spring compared to market expectations.

Accordingly, we think there is a gap to be filled on the dovish side in the Sonia curve. Such repricing may however take some time to show, and the rate/growth differential with the eurozone means there should be continued resistance on a substantial shift higher in EUR/GBP.

Francesco Pesole

→ CEE: From central bank to central bank

The National Bank of Poland's press conference provided some new details and an indication that the first cut will not necessarily be just 25bp. The governor tried not to mention specific details but admitted that March would be the first live meeting for a rate cut, which the market accepted as a dovish outcome even though March was already priced in before the press conference. Still, [our economists](#) see the second quarter as the baseline and we still don't know what will happen with the freeze in energy prices next year.

The Czech National Bank on the other hand tried to continue its traditional hawkish tone, but the new forecast presented a dovish picture of the economy across the board, and the press conference made it clear that external developments are clearly anti-inflationary, even though the CNB sees upside risks from services and food prices. Here, our economists expect a pause in the cutting cycle in December, which one of the seven board members already voted for at yesterday's meeting. The key will be the October inflation print released on Monday next week, where we see upside risk to the CNB forecast. The CNB will present the full forecast today.

Elsewhere, today we will also see the decision from the National Bank of Romania, where [our economists](#) expect rates to remain unchanged at 6.50%. This would be the second meeting in a row after the previous two 25bp cuts. The NBR sees fiscal risks and inflation details as unclear despite the headline rate being lower than expected. On the other hand, the economy is surprising on the downside. Overall, our house view sees a return to the cutting cycle only by next year.

In Turkey, the central bank's inflation report will be released today which should give us more flavour to the October inflation number which surprised to the upside. Although headline and core inflation is falling, the pace of disinflation is slower than the CBT expected, which is likely to add to central bankers' caution and hawkishness once again. Here, our economists [expect](#) the first cut in December, but the latest numbers raise the likelihood of further delaying the start of the cycle.

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