

FX Daily: CPI may keep dollar going

The dollar rally is at risk of some positioning-led correction, but we expect that US core CPI will come in at a relatively hot 0.3% MoM, which should keep markets rather hawkish on Fed pricing. We are holding a live webinar today at 15:30 GMT to discuss our FX views for 2025 in light of the US election result. Details and registration [here](#)



It was announced today that Elon Musk will play a key advisory role in the Trump administration

USD: Inflation may stay too hot

The second round of post-election Trump trades has now taken the DXY dollar index to the 2022 highs as markets sink their teeth into the dual narrative of a wider rate and growth gap between the US and other developed countries. The latest news on the government appointment side is that Elon Musk and Vivek Ramaswamy will lead a “department of government efficiency”, which aims to slash bureaucracy and spending. It is too early to tell what this will effectively mean for public finances, but this confirms that Musk will play a key advisory role in the Trump administration, which likely fuels expectations for de-regulation and looser taxation.

The strong dollar is currently pricing in a good deal of Trump’s policy mix, and data releases/dovish Fed comments might offer good opportunities to take profit in bullish dollar positions. However, our house view for today’s US inflation report is that core CPI kept rising at a consensus 0.3% MoM in October, and headline CPI at 0.2%. This is above the 0.17%MoM rate that needs to be averaged over time to hit the 2% inflation target, and should keep markets on the dovish side of the pricing

for the Fed.

Still, pricing is already quite cautious on further Fed easing, with only 15bp priced in for December and 23bp by January. This means there is probably an asymmetric downside risk for the dollar today in case of a slightly lower-than-expected core CPI print. There are also a few Fed speakers to monitor today: Kashkari, Williams, Musalem and Schmid.

If we are right with our CPI call, then the dollar rally could find a bit more steam and DXY consolidate above 106. Nevertheless, the recent bullish move is starting to look a bit stretched, and the risk of a positioning-led short-term USD correction similar to the 7 November one is quite high.

Francesco Pesole

📉 EUR: 1.06 is in line with rate gap

EUR/USD has remained under intense pressure from a broad USD rally and may well make a move below 1.06 today if the US core CPI comes in at 0.3% MoM. Despite the size of the recent EUR/USD drop, we must note that 1.060 is the short-term fair value level implied by short-term rate differentials. The USD:EUR two-year swap rate gap has continued to widen rapidly, and is currently around 185bp.

In other words, there is not much additional risk premium being added to EUR/USD compared to what rates are suggesting, as markets are doubling down on expectations that the ECB will slash rates more than the Fed ahead of the tariff impact on growth.

We are, by all means, in the dovish camp with our ECB call, and actually think markets are still underpricing (30bp) the chances of a 50bp cut in December.

The eurozone calendar is quite quiet today and US news will drive EUR/USD. A stretched positioning argues for some short-term upward correction in the pair, but as per the USD section above, we don't expect this to happen today given a still-hot US CPI. Regardless of short-term adjustments, the direction of travel is bearish for EUR/USD, in our view, and [we target 1.04 for year-end](#).

Francesco Pesole

📉 GBP: Eyes on Mann today

The main event in sterling markets today is a speech by Bank of England's Catherine Mann, the most hawkish member of the MPC. Markets will be attentive to any comments about the implications of the recent budget for monetary policy and any colour on the latest jobs/wage figures. Given her arch-hawkish stance, we suspect she could stress – if anything – the inflationary aspect of the government's spending boost and perhaps focus more on the sticky wage figure rather than the rise in the unemployment rate in September.

Ultimately, the GBP curve does not need many more hawkish hints to move at this stage. Markets are pricing little to no chance of a cut in December, and only 50bp in total by September 2025. In our view, the risks remain skewed towards a dovish repricing and consequent negative impact on sterling, although a repricing lower in rates may take some time to materialise as markets will tread carefully when assessing the inflationary implications of the budget. The soft momentum for the EUR means EUR/GBP could remain close to the 0.8300 gravity line.

Francesco Pesole

📌 CEE: Stronger dollar pulls CEE down further

The market has almost ignored the inflation numbers over the last two days within the CEE region and the global story seems to be in the spotlight still.

Today will not be much different. The calendar offers current account numbers for September in Poland, the Czech Republic and Romania. Those produced a positive surprise last month in the Czech Republic and a negative one in Poland, which the market could watch this time around to see if it was a one-off or a trend reversal.

However, the main story remains the declining EUR/USD which should keep pressure on the CEE currencies. We remain bearish here. If anything we see PLN outperforming the region but perhaps later rather than sooner, however yesterday EUR/PLN bounced off 4.360 which seems like a key level. While HUF seems like a separate story now PLN/CZK may get the market's attention given the bounce back from 5.800 which seems like a limit to PLN's weakness here and could get some support.

Frantisek Taborsky

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

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

chris.turner@ing.com

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