

FX Daily: Dollar outlook remains bearish despite hectic Fed reaction

We interpret yesterday's Fed decision as a net negative for the dollar, and think that some 'sell the fact' and positioning readjustment have exacerbated the dollar rally during and after the presser. Expect the USD to lower in the coming days. Today, eyes will be on the BoE's QT announcement (rates likely on hold), while we narrowly expect a Norges Bank cut



Fed Chair Jerome Powell speaks during Wednesday's press conference

Join us today at 1400 BST/1500 CEST for a live discussion from our panel of experts on their outlook for the direction of the dollar and key currencies across the G10 space, Asia and Central and Eastern Europe. Sign up [here](#).

📌 USD: Looking through the volatile Fed reaction

We debriefed yesterday's Fed rate cut in [this note](#). Markets' initial interpretation was firmly dovish: aside from Miran's 50bp dissenting vote, the Dot Plot was revised to show two more cuts this year.

The result was a drop in front-end yields and the dollar. However, as Chair Powell started speaking in the press conference, the move was very rapidly inverted: the two-year swap rate climbed above pre-meeting levels, the yield curve steepened, and DXY ended the day with a 0.5% gain and has continued to rally this morning.

We think the second move was exacerbated by some “sell the fact” effect and positioning readjustments. It’s telling that about half of the initial dollar drop had been unwound even before the press conference started. Anyway, one of the main triggers appeared to be Powell failing to bring the inflation discussion to the “transitory” camp, leaving the assessment of the tariff impact on prices still very much open. Also, his characterisation of this as a “risk-management cut” might have softened the Dot Plot’s dovish message. All in all, if markets were looking for some confirmation that the Fed has lost some independence, Powell seemed to quell it yesterday.

But regardless of the market’s hectic reaction, we read this as a negative event for the dollar. Despite Powell’s cautionary tone, the FOMC has clearly shifted to a dovish stance where it sees multiple cuts, and the focus is now firmly on the employment side of the mandate.

Our call is for two more 25bp cuts this year, and we see the cheapening of the dollar’s funding cost as driving more depreciation in an already seasonally weak end of the year for the greenback. We expect the next few days to show the dollar re-softening. Today, the focus will be on jobless claims – which spiked last week – alongside the Leading Index and TIC flows.

Francesco Pesole

EUR: Cheap below 1.180

EUR/USD is now trading back below 1.180 after touching 1.1920 immediately following the FOMC announcement. As discussed above, some positioning readjustments are probably contributing to the sharp EUR/USD drop during and after Powell’s press conference.

Our model indicates that the hawkish repricing at the front end of the USD curve, relative to the EUR one, still places the short-term fair value at 1.185. So further drops to 1.170 would need to be justified by stronger US data and, by extension, higher front-end USD rates, which is not our baseline considering the clear negative momentum for US jobs news.

We expect a return to 1.185 in EUR/USD over the coming days, and continue to target 1.20 in the fourth quarter.

Francesco Pesole

GBP: QT announcement in focus today

The Bank of England will likely keep rates on hold today, following a hawkish cut in August. As discussed in our [preview](#), markets are also pricing in no chance of a cut today, but the November decision still appears to be hanging in the balance. The focus will be on any new forward guidance, the vote split and the QT announcement.

Regarding forward guidance, we don’t expect anything new. The BoE has pointed to cautious and gradual easing for some time, and recent data hasn’t pointed to a shift to directional guidance. Markets should continue to infer the MPC mood from the vote split. Our call is 6-3, with Swati Dhingra, Alan Taylor and Dave Ramsden voting for a cut. That might be read as slightly dovish, but

would cause a major repricing, which remains very much tied to incoming data.

The QT announcement has the largest market impact potential. We expect a slowdown in the annual gilt reduction target to £75bn, which recent consensus estimates. Expectations are likely that there will be some shift to younger maturities to lift pressure off the struggling long-end of the gilt curve. Any negative surprises on QT today could trigger gilt sell-offs that have proven to spill over significantly onto GBP. Our baseline remains for a gently supported EUR/GBP into November's BoE and budget events.

Francesco Pesole

📌 NOK: Our case for a cut today

Consensus is split on whether Norges Bank will cut today. As discussed in our [preview](#), we narrowly favour a cut. While underlying inflation has remained above 3.1% and surveys have pointed to decent growth expectations, Norway's real rate appears excessively restrictive, and the krone's recent good performance makes market conditions ideal for a cut. Finally, oil continues to face downside risks, and the dovish repricing in Fed rate expectations can also tilt the balance to a 25bp cut.

Pricing for today is 16bp, meaning NOK should come under pressure in our baseline scenario. Also driving the currency reaction will be the new rate path projections, which currently embed a good chance of another cut in December. The risks are that those are slightly revised higher (although not our baseline view) and curb NOK losses.

We recently [pointed](#) out how EUR/NOK looked cheap, and we retain a 1-month target of 11.70.

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