

## FX Daily: Dollar rally looking tired

Despite good ADP and ISM services data, the USD has corrected lower. With equities re-stabilising, the risks remain of further USD pullbacks after a rally that has exceeded what rate differentials can justify. Today, we see the BoE on hold despite mounting speculation of a pre-Budget cut. Norges Bank is likely to hold too, with low risks of guidance tweaks



### ⬇️ USD: More correction risks

ADP payroll figures were good enough (42k vs 30k consensus) to keep markets in guessing mode about December's Fed cut. ISM services were also stronger than expected. The dollar reaction was interestingly quite muted and was followed by a correction overnight. We read this as a signal that markets were already pricing in a good deal of positives in the USD, and that part of the dollar rally over the past couple of days was due to safe haven flows amid equity instability.

The dollar has clearly re-established some safe haven appeal, meaning more equity corrections can still benefit USD against activity currencies. But the yen remains the preferred defensive tool in FX now. Japanese officials have continued to test the waters with verbal intervention, but without follow-through, such efforts tend to lose impact over time. If some risk-off fails to come to the rescue for the yen, expect more upward USD/JPY speculation to test the Bank of Japan's tolerance

band (with 155.0 as the obvious target).

While we note signs that the dollar rally is running out of steam, it's equally true that markets are lacking a compelling story to rebuild dollar shorts. The lack of data and a cautious Fed communication means there aren't many in sight. We expect some rangebound trading today, with lingering risks of correction in the dollar based on short-term overvaluation. We also have Challenger job cuts data today, which could surprise on the negative side for the dollar and add fuel to the correction.

Finally, the Supreme Court's review of the Trump administration's tariffs is drawing significant attention. We discuss this [here](#), and our baseline is that tariffs will stay regardless of the ruling.

*Francesco Pesole*

## EUR: Still cheap

EUR/USD is trading well within undervaluation territory, as the dollar rally has extended beyond what can be justified by short-term drivers such as rate differentials and equities. With the current spot (1.151), we estimate undervaluation at 1.3%. This means another leg lower would either imply some significant premium build-up on the euro (which generally argues for faster reversals) or require some hawkish Fed repricing. We don't see a catalyst for the second, and we expect instead some stabilisation in the pair in the coming days with upside risks to 1.160.

Elsewhere in Europe, Norway's central bank announces policy today. It's unlikely we'll see another cut, as its latest policy projections imply a pause until mid-2026 and macro inputs haven't changed materially. Underlying CPI eased slightly to 3.0% but the headline accelerated to 3.6% in September. Meanwhile, US rate expectations have been revised higher and NOK has come under some pressure of late, both hawkish signals. We don't expect any tweaks in communication and a neutral impact on NOK, which should, however, recover some ground if equity markets stabilise.

In neighbouring Sweden, CPI inflation for October came in a bit hotter than expected at 3.1%, with core also slightly above consensus at 2.8%. This broadly endorses the Riksbank's unchanged message yesterday: the bar for another cut is high. The EUR/SEK reaction has been small as markets were pricing in little to no chance of more cuts ahead. Anyway, the data modestly reinforces our bearish EUR/SEK view. We are now targeting a return to 10.90 in the near term.

*Francesco Pesole*

## GBP: Bank of England to hold, December cut in play

Markets are pricing in a 25% probability of a Bank of England cut today. As we discussed in our [preview](#), our call is for a hold, as a single positive inflation print shouldn't be enough to bring an MPC majority behind a cut.

But the vote split could be 6-3 or perhaps a more dovish 5-4, which would signal the bar isn't high for a cut in December.

We think there are some upside risks for GBP today as markets may not receive clear signals towards a December move (16bp priced in), and also considering EUR/GBP is still trading around 1% above its short-term fair value. As back-end gilts have performed well, we read that risk premium as an anticipation of speculation via FX of a worse economic outlook for Britain (not a

worse fiscal position), which is still to be reflected in short-term rates.

Anyway, the upside for GBP remains limited in the coming weeks as prospects of tax hikes and CPI data may ultimately consolidate dovish bets. Our year-end target remains 0.880 for EUR/GBP. [Here is our market preview of the UK Budget.](#)

*Francesco Pesole*

## ➔ CEE: Dovish news coming to the region

In the Czech Republic, yesterday's October inflation brought a slight [upward surprise](#) with a pick-up from 2.3% to 2.5% YoY. However, the whisper number seems to have been below the consensus of 2.3% and we saw a decent hawkish repricing, also supported by higher core rates. The main driver was food prices again. Although the market has moved to the hawkish side, we are, on the contrary, shifting to the dovish side. In recent days, we have seen several announcements of energy price cuts for households from providers, but also the new government's proposal to subsidise the regulated component and the EU plans to postpone the introduction of ETS2 in 2027.

Overall, the headline inflation profile for the next two years has changed significantly lower, which will not be captured in the new Czech National Bank forecast presented today. The decision on rates itself is a non-event, but forward guidance will be important. We believe that the CNB has every reason to be neutral or slightly dovish given the latest news, and the market will challenge the hawkish pricing. Although we do not expect this to lead to rate cuts, the market should shift dovish and push for some FX weakness as well. EUR/CZK could therefore go lower after yesterday's rally in CZK rates before the CNB meeting closer to 24.30, but the press conference and tomorrow's meeting with analysts should be rather dovish and return the pair to test 24.40 as we saw on Tuesday.

Elsewhere, [The National Bank of Poland](#) cut rates again by 25bp to 4.25% on Wednesday, in line with expectations, and presented a summary of the new forecasts. Although the statement does not provide much guidance, the MPC still calls the rate cuts an "adjustment" and does not refer to it as a cutting cycle despite the 150bp of rate cuts delivered this year. Our economists expect the central bank to take a break as usual in December and also skip the January and February meetings due to the delay in publishing inflation, so we will not see another rate cut until March.

However, attention will be on the press conference of Governor Adam Glapinski today, which could reveal more. Given the almost fully priced-in rate cut yesterday, the market did not have much reason to move in the rate space. The same is reflected in EUR/PLN, which remains without a major story. The main question is whether the governor will repeat 4% today as the first rate level to stop "adjustments" or allow more cuts as the market prices in. This creates more risk on the hawkish side and some support for PLN. However, we expect EUR/PLN to remain in the range of 4.230-270.

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