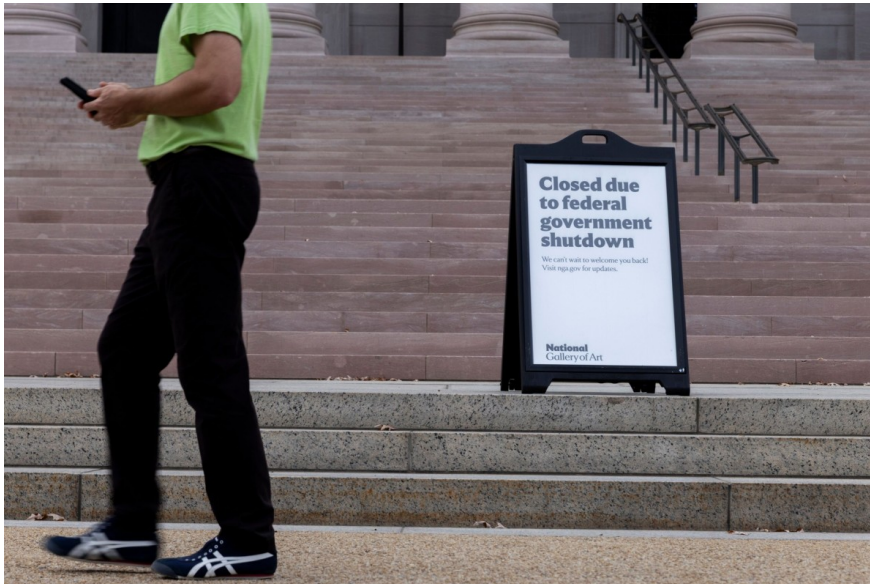


FX Daily: Dollar shows its vulnerable side

The dollar revealed its vulnerability during Friday afternoon's FX trading. The fear remains that this year's hike in US tariffs will eventually show up in hard data and once again challenge the idea of US exceptionalism. In the ongoing absence of US data, this week will be dominated by central bankers at the IMF meetings and international politics



There seems to be no end in sight for the US government shutdown and the dearth of US data

➔ USD: Tracking US-China negotiations

President Trump's threats of higher US tariffs on China last Friday led to some decisive price action in FX and bond markets. USD/CNH traded sharply higher, but the DXY dollar index dropped even more as investors felt the fallout would be greater on the US than on China. Export data released from [China overnight](#) confirms that China has managed to diversify its export base away from the US reasonably well. Friday's price action also saw US short-dated Treasury yields drop by 5-8 bp – confirming this was more a macro threat to the US than a 'Sell America' story.

Since then, US equity futures have reclaimed around half of Friday's losses on some conciliatory words out of Washington. The threat of an extra 100% tariffs on China is set for 1 November, shortly after the presumed meeting between Presidents Trump and Xi on the sidelines of the APEC meeting in South Korea. In short, there's plenty more time for jockeying for position ahead of 1

November.

At the same time, there seems to be no end in sight for the US government shutdown and the dearth of US data. Betting markets are unmoved in attaching a 67% probability that the shutdown extends into November. Instead, the focus will be on central bankers and their communication. There's a plethora of central bankers speaking this week at the autumn IMF meetings in Washington. Highlights include Fed Chair Jerome Powell tomorrow and ECB's Christine Lagarde on Thursday. Expect a lot of official attention on the stock market. Here, the IMF will release its Financial Stability Report tomorrow, which undoubtedly will express some concerns over current valuations. For reference, the S&P 500's current cyclically-adjusted price earnings ratio (CAPE) stands at 39 versus 45 for the Dot Com peak and a 10-25 long-term average.

This week also sees the release of the Fed's Beige Book on Wednesday evening, which will be scrutinised for any signs of further slowdown in the labour market.

Today should be quiet for FX trading, given public holidays in Japan and the US – meaning no trading of US Treasuries. Expect DXY to bounce around on US-China headlines, but 99.50 looks a short-term top, and it could break down to the 98.00 area on Tuesday/Wednesday around the Powell speech/Beige Book.

Chris Turner

⬇️ EUR: The definition of insanity

Doing the same thing over and over again and expecting different results is often described as Albert Einstein's definition of insanity. Some might attribute this to the current cycle of French politics, where President Macron has re-appointed Sébastien Lecornu as prime minister and has asked him to present a revised budget to parliament. That seems likely to fail and result in a no-confidence vote later this week, which will leave France without a government. That's not a good story for the euro, although one which probably plays out in the likes of EUR/CHF rather than EUR/USD.

As for EUR/USD, it's interesting to see it holding onto Friday's gains even as US equities recover half their losses. Perhaps the re-opening of the US Treasury market tomorrow poses a greater threat to the EUR/USD rally, where presumably US yields could correct back higher.

We prefer EUR/USD trading near 1.1700 over the coming weeks, but the best chance of that happening earlier is probably this week's Fed communication.

Chris Turner

➡️ JPY: Tracking Japanese politics

This time last week, USD/JPY was surging on the news that Sanae Takaichi had won the LDP leadership election and would likely become Japan's next prime minister. However, the LDP's coalition partner, Komeito, has walked away from that coalition, and the focus will be on which bloc can garner sufficient votes for a new PM when parliament reopens, probably next Monday. Opposition parties are trying to coalesce around a candidate, though an opposition win here does seem to be a tail risk. Anyhow, it seems USD/JPY will not make another run at the highs until Takaichi's position is secured – which may take another week or two.

In the meantime, USD/JPY has to contend with US-China rhetoric and perhaps some important updates from the Fed. There's a complete outside risk that USD/JPY ends the month back near 147/148, but quite a few pieces need to fall into place for that outcome.

Chris Turner

➔ CEE: Global uncertainty outweighs weaker dollar

After a busy week in CEE, things will slow down a bit this week. Today, Romania will release its September inflation data, which is expected to peak after a sharp rise caused by the consolidation package. Our economists expect only a slight increase from 9.9% to 10.0% year-on-year, which is one-tenth less than the market expects. Tomorrow, data on the current accounts of Poland and the Czech Republic will be released.

On Wednesday, Poland will publish final inflation data for September, which should be confirmed at 2.9% year-on-year. A day later, we will also see core inflation, which we estimate fell from 3.2% to 3.1%. On Friday, inflation expectations in Turkey will be released, which could reflect higher-than-expected inflation for September. More attention may be paid this week to the IMF's annual meeting in Washington, where policymakers from CEE are also expected to be represented and will meet with market participants.

Friday's trade headlines did not sit well with CEE currencies, and despite the EUR/USD rebounding, global uncertainty prevailed. EUR/PLN has been following our expectations closely in recent days, and we have come close to the upper end of our 4.245-275 range, which seems like a fair level indicated by rates at this point. EUR/HUF jumped above 392, but we see a more likely return to 390 here. Similarly, EUR/CZK should head slightly down towards 24.300.

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