

## FX Daily: Dollar squeezing every bit of Powell's hawkishness

The dollar enjoyed a second round of support yesterday as Powell's relatively hawkish press conference continued to resonate with data-starved markets. But the conditions for another big leg higher in USD aren't there, in our view. Meanwhile, Japan has intervened verbally to curb JPY volatility, and GBP is looking closely at Reeves' political position



Fed Chair Jerome Powell

### ➔ USD: Further gains harder to justify

The dollar found more support yesterday on the tail effect of Fed Chair Powell's hawkish press conference and, more marginally, the US-China trade deal (on the latter, we recommend our commodities team's [rare earths](#) note). Throughout September and October, we have discussed how short-dollar trades clearly hit a roadblock and needed to be fuelled by more compelling negative USD news. The government shutdown has prevented jobs data from offering that catalyst, and Powell's caution on a December cut has to be taken more at face value now.

But our short-term call on the dollar remains more one of 'lack of direction' rather than the initiation of a more sustainable rebound. And the reason is precisely the lack of data releases,

which incidentally prevents markets from making any conviction call on slower Fed easing. In our view, DXY lacks the thrust to break above 100.0. Today, the PCE report should be delayed.

In Japan, USD/JPY is now obviously causing concerns for authorities. Finance Minister Satsuki Katayama said overnight that the yen's "very one-sided and rapid currency" moves are being watched with a "high sense of urgency". This confirms it's officially the rate of change rather than the level that matters, although previous instances of BoJ FX intervention tell us that psychological levels play a role too. This time, there is a larger question mark on whether the US will condone FX intervention.

Markets may be willing to test whether 155.0 is a line in the sand – inaction around that level could prompt more speculative long USD/JPY bets. However, [hot Tokyo CPI and industrial production](#) overnight raise the chance of a December hike, which is our base case, but only 45% priced in by markets.

Francesco Pesole

## ➔ EUR: Bar for more ECB easing is high

It's abundantly clear that the ECB wants to keep things boring at this stage. Here are our ECB watcher Carsten Brzeski's takes on yesterday's [statement](#) and [press conference](#). The only real highlight was the shift from a 'balance of risk' wording to a broader set of upside and downside risks to growth. Lagarde acknowledged some downside risks had eased, but didn't give much weight to the shift in wording. Admittedly, eurozone growth was [better than expected in 3Q](#) (0.2% QoQ), largely due to surprisingly strong French numbers (0.5% QoQ).

The coming weeks will see Governing Council members offering their nuances to the policy-inflation-growth assessments. But don't expect much. The ECB is clearly in a 'good place' at 2% and the bar for more easing remains high.

Anyway, EUR/USD remains entirely a function of dollar moves, and post-FOMC price action is leading to speculation of a potential break below 1.150. We don't see the conditions for another big leg lower in the pair, though. Jobs data need to confirm Powell's more cautious stance, and we doubt the bar is much higher for a Fed dovish repricing should US jobs deterioration continue. The contribution of the euro is small, but a slight improvement in the growth story and a firm ECB cannot harm. Our call remains bullish on EUR/USD into year-end.

Francesco Pesole

## ➔ GBP: A surprise Reeves resignation would be bad for markets

We published a [market guide to the UK Autumn Budget](#) yesterday, looking at four different scenarios and their impact on gilts and the pound. In our baseline scenario, Chancellor Rachel Reeves delivers a combination of tax hikes whilst avoiding the more inflationary measures. That has gradually been priced in by markets via some dovish BoE repricing, lower gilt yields and a weaker pound. Our post-budget EUR/GBP target is 0.880 on the back of that.

One source of risk for gilts and GBP, even before any clearer details on the Budget emerge, is from opposition calls on Reeves to resign following her admission of failing to obtain a required license to rent her home. The story slightly deflated yesterday as PM Starmer fully backed Reeves and a real estate agency took the blame for the error.

In July, when Reeves appeared close to leaving her post, gilt yields spiked. Markets are wary that a change in Chancellor could herald more relaxed fiscal rules and additional borrowing, at a time when gilt issuance remains elevated. A surprise resignation, which looks unlikely, would, in our view, cause elevated volatility in gilts and the pound.

Francesco Pesole

## ➔ CEE: Spike in rates should offset the effect of a stronger US dollar

Following yesterday's regional GDP data, today brings the release of Poland's October inflation figures, as always, the first inflation print from the CEE region. Our economists expect a slight increase from 2.9% to 3.0% YoY, in line with market expectations, while core inflation should remain unchanged at 3.2% YoY. Today's figure could decide whether the National Bank of Poland cuts rates again next week. We believe that it will take a break, but a surprise to the downside could push the decision back towards a rate cut.

Yesterday's GDP data in the Czech Republic and Hungary confirmed our bias and more divergence in economic performance in the region. While the Czech GDP surprised up, with a growth of 2.7% YoY, the Hungarian economy surprised down by 0.6% YoY, both roughly in line with our expectations. Although the market impact was almost invisible given the strong global story, in the longer term, this is clearly a story worth following.

Next week, we will see the meeting of the Czech National Bank, which will also publish a new forecast. Although headline inflation may give the impression that the central bank may be relaxed and may return to rate cuts one day, the economic data shows that the CNB needs to be cautious as we look ahead. The economy is growing at its fastest pace since the Covid rebound, and at the same time, wages are showing upside, which will keep core inflation higher. On the other hand, the Hungarian economy has confirmed its weak performance, and we believe that the market will push more dovish bets even though the NBH remains hawkish. This should gradually start to undermine the HUF in the medium term.

For now, the strong rate reaction in the CEE region to Wednesday's hawkish Fed should offset the impact of a stronger US dollar, and we expect EUR/HUF and EUR/CZK to stabilise at current levels, while PLN will follow inflation figures.

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