

FX Daily: Dollar stabilises as markets digest Fed signals

The US dollar stabilises after post-Fed selling, pressured by lower rate expectations and seasonality. Attention is moving to the ECB and German inflation to test the hawkish market switch. CEE markets remain calm ahead of key central bank meetings next week, while Turkey cut rates by 150bp amid easing inflation



➔ USD: Dollar stabilises after Fed meeting

Following Wednesday's Fed meeting, the US dollar extended its decline yesterday, with the DXY closing near 98.00, close to our expectations. The bearish wind is coming not only from interest rates but also from end-of-year seasonality, in our view. Dollar rates saw another calibration of Fed expectations lower, with the 2y falling to 3.50% and the market pricing in 3.05% as the Fed terminal rate at the end of next year, keeping pressure on the US dollar.

Today's US calendar does not have much to offer, and the market should stabilise somewhat after the risk event. Some risk-off sentiment coming from equities should, on the other hand, provide some floor for the dollar. Overall, DXY around 98.350 with a small downside to 98.200 seems fair for now, in our view.

Frantisek Taborsky

➔ EUR: Attention shifts to eurozone central bankers

German inflation figures for November are expected to come in at 2.6% year-on-year, the highest level in nine months, as another piece to the puzzle of higher euro rates and a shift in market pricing to the hawkish side. Following the Fed meeting this week, the market's attention will shift to the ECB meeting next Thursday. President Christine Lagarde will present a new forecast, which should be the first test of the current pricing of no further rate cuts, in line with our view.

The front of the EUR curve saw a significant upward move this week, by 10bp in the 2y tenor, which directly countered the movement of USD rates, supporting further spread tightening in favour of the EUR. After EUR/USD touched 1.175 yesterday, the stabilisation of the US dollar should bring a slight correction in EUR/USD more towards the middle of the 1.170-175 range.

Elsewhere, UK GDP figures for October surprised slightly lower, with the economy unexpectedly contracting by 0.1% MoM, dragged down by manufacturing, supporting the Bank of England cutting case next week with 22bp priced in currently. The pound is little changed this morning, but the opening suggests some pressure to weaken closer to 0.878 EUR/GBP.

Frantisek Taborsky

⬇️ CEE: Quiet end to the week before the central bankers' meet

The region should see a quiet Friday today before a busy week ahead. Inflation in Romania this morning showed no change at 9.8% YoY, slightly above market expectations but still confirming a peak in inflation and a likely decline in inflation in the middle of next year as the next step. However, the central bank is likely to remain on hold for a longer period of time, and the first cut is not expected until August next year. In Turkey this morning, inflation expectations showed a decline from 23.5% to 23.4% in the one-year horizon, as expected following the November inflation decline, but the slow rate of decline suggests some persistence.

Next week, the CEE region will be busy again with attention to the last meetings of the year by [the National Bank of Hungary](#) and the Czech National Bank. Both central banks are expected to leave rates unchanged, but the NBH will publish a new forecast, likely with a lower inflation profile and the CNB is expected to reflect weaker November inflation and a lower inflation outlook due to lower household energy prices.

The koruna is recovering after a small sell-off at the beginning of the week, triggered by a strong move in the interest rate differential. EUR/CZK drifted down to 24.200 yesterday, but the rates show a more likely 24.250-300 range despite the weaker US dollar after the Fed meeting.

Frantisek Taborsky

➔ TRY: Central bank cuts rates by 150bp amid softer inflation

At the last [rate-setting meeting](#) of this year, the Central Bank of Turkey delivered a larger rate cut of 150bp in comparison to the more cautious 100bp reduction at the October MPC. This followed a better-than-expected reading on headline inflation for November. The consensus was evenly balanced between 100bp and 150bp ahead of the meeting. The move pushes the policy rate down to 38% from 39.5% while the interest corridor remains unchanged at 450bp.

While the bank emphasised that future rate decisions will remain data-driven and assessed on a meeting-by-meeting basis, it provided little clarity regarding near-term rate actions. In this context, inflation expectations, the outcome of the 2026 minimum wage negotiations, and the anticipated adjustment to automatic tax rates – promised by Finance Minister Mehmet Simsek – will be key for the outlook, alongside considerations regarding dollarisation and reserve levels, in our view.

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