

FX Daily: ECB doves float below neutral rates

The dollar dodged a bullet last night given that the Fed's Beige Book was largely a non-event. Today the focus is on European PMIs. These are expected to languish near contractionary territory and provide oxygen to the ECB doves who now think the policy rate may need to go below neutral. Expect the euro to stay offered. Hungary's forint looks fragile too



The Fed's Beige Book was largely a non-event

USD: Dollar dodges Beige Book bullet

In Monday's [FX Daily](#), we highlighted that the Fed's Beige Book could prove the largest threat to the dollar this week. The previous release warned that nine of the Fed's 12 districts saw flat or declining activity and was thought to have prompted the 50bp Fed cut in September. Well, last night's release, prepared for the 7 November FOMC meeting, reported stable activity in nearly all districts, with two districts showing expansion. Nothing here then to alarm the Fed and US interest rate futures barely budged on the release. The USD OIS curve still only prices 37bp of Fed rate cuts before year-end – suggesting the possibility that the Fed might skip a 25bp rate cut at either the November or December meeting. This is all in stark contrast to other central bankers like in [Canada](#) or the eurozone which seem in a rush to get rates to neutral, if not lower (see below).

This is all happening in the context of the impending US election. If you haven't read it already, I'd strongly recommend reading our [US election cheat sheet](#) where my colleague Francesco Pesole

makes a compelling case that volatility will probably rise into the 5 November election, and assuming that Donald Trump continues to perform well in the polls, the dollar should stay bid. If volatility does indeed take another leg higher from here and liquidity evaporates, we could see USD/NOK punching through two-year highs around the 11.25 area.

For today, the main focus will be on European data, but in the US we see the S&P PMIs, the weekly initial jobless claims and new home sales data. None of these should move the needle on the Fed story and any jump in initial claims could be dismissed as weather-related.

DXY has had a virtually 4.5% uninterrupted rally this month. It is hard to think it can push aggressively ahead from here – but reasons for a strong retracement look scarce. DXY is probably to stay bid in a 104-105 range now.

Chris Turner

📉 EUR: PMIs look unlikely to save the euro

Having done so much damage to the euro recently, today's release of the October flash European PMIs will be closely tracked. Our team sees little respite yet for a manufacturing sentiment in deep contractionary territory, typically dragging the composite readings below 50. Could Chinese stimulus measures perhaps boost manufacturing confidence? Our team doesn't seem to think so. Their call is for largely unchanged releases from prior months.

With inflation in abeyance and business confidence low, this is fertile ground for the ECB doves. Perhaps it is no surprise then that one of the most dovish members, Bank Of Italy's Fabio Panetta, is speculating that the ECB policy rate does not just need to be cut to neutral (2.00/2.25%) but lower. Currently, the OIS ESTR curve does indeed price ECB rates being cut to 1.75% next year. That's why the EUR:USD two-year swap differential has exploded to 150bp in favour of the dollar and sent EUR/USD sub 1.08.

EUR/USD and rate spreads have come a long way very quickly. It is hard to see rate spreads going an awful lot wider from current levels. But deteriorating liquidity ahead of US elections on November 5th warns against trying to sell the dollar. We tentatively see something like a 1.0765-1.0850 EUR/USD range for the time being.

Chris Turner

📉 CEE: Closer to the election, more pressure on EM

Once again the calendar has little to offer today except consumer confidence in the Czech Republic. However, the main driver remains the global story, which adds volatility to the entire EM space. Yesterday the market again came under pressure and with today's focus on PMI data in Europe and the US, we may see more negative news and reasons for further weakness in the CEE region.

The main focus will be on Hungary today which was closed yesterday for a local holiday. Rates had no chance to react but EUR/HUF is flirting with 403 levels in the meantime, a new local high. Today we will watch rates opening closely. The market has priced out almost all rate cuts, but we still see two cuts priced in for the second half of next year that may be priced out today as well, and if EUR/HUF continues to head higher, it would not be a surprise if the market starts to increase the odds for some central bank action.

PLN also came under pressure yesterday with the weakest levels since June. The last few days have brought some negative numbers from the Polish economy, which has frontloaded the National Bank of Poland (NBP) pricing of rate cuts. After some time, pricing has returned to the dovish side and we see the first cut priced for February next year, while our economists expect May.

At the same time, the market seems to be unwinding long-term PLN positions ahead of the US election and NBP cuts. Clearly, sentiment around the zloty is changing to the negative side. The CZK thus remains the only currency in the region without major losses and has outperformed the region in recent days and remains our currency of choice, while the rest of the region may see further losses at least until the outcome of the US election.

Frantisek Taborsky

➔ BRICS: Our de-dollarisation update

Yesterday my colleague Dmitry Dolgin and I published a 'long-read' comment on the de-dollarisation story for the BRICS+ nations. Please see the [full article here](#). Key findings include that BRICS will probably have the most room to progress their de-dollarisation agenda in the areas of reserve management and energy trade invoicing. Also interesting is the aspect of the CBDCs and the project m-Bridge which one day could cut US banks out of cross-border payments in the BRICS sphere of influence.

The prospect of ongoing de-dollarisation also reminds us of the long-term impact on the US Treasury market. Back in the 2000s, after China joined the World Trade Organisation, Asian nations amassed large trade surpluses and large FX reserves as they tried to slow the appreciation of their local currencies. These oversized FX reserves suppressed Treasury yields. BRICS de-dollarisation is the reverse of that trend.

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