

## FX Daily: Equity correction casts a shadow over FX

The risk mood has darkened a little this week, with some sizeable corrections emerging in some equity markets. There has not been one catalyst per se, but lofty valuations must be leading to some profit-taking in uncertain conditions. For today, it's all about the US ADP jobs release and what it means for the December Fed meeting. Expect FX to stay defensive



A defensive move in risk assets is lending more support to the dollar

### ➔ USD: Dollar doing well, ADP to determine next move

A more defensive mood has gripped global markets and FX this week. There has not been one particular catalyst here, although if this does turn out to be a sizeable correction, investors would probably blame things like valuations, uncertainty about the depth of the Fed easing cycle and perhaps even the election of Zohran Mamdani as mayor of New York. On valuations, it seems clear that markets are overextended. One metric of valuation, the Shiller Cyclically Adjusted Price Earnings ratio (CAPE), stood at more than 40 a few days ago – very close to the Dot Com extremes in 2000. And this week we've seen some very frothy price action in Asian stocks, with Korea's KOSPI

index off 8% in the last two days alone.

FX markets are reflecting this nervousness, with high beta currencies under pressure and the dollar generally bid – particularly as positions get pared back in emerging markets. In the G10 space, this week's shift to defensive positioning has seen cross rates like AUD/JPY and NOK/JPY (pairs with some of the highest correlation to equities) fall some 2.00/2.25%. One could argue that the yen would be the preferred safe haven now given that Japanese authorities would welcome a stronger yen, while Swiss authorities would fight against a stronger Swiss franc.

For today, the hottest release will be October's release of the ADP jobs data report at 1415CET. Expectations are for a modest increase at +30k after last month's 32k fall. Remember, this formerly discredited release is back in fashion, given that we have no official jobs data. An on-consensus reading today probably keeps the dollar supported, given that it would maintain doubts about whether the Fed cuts again in December. That outcome is currently priced with a 73% probability. A soft/negative number should prove mildly bearish for the dollar – and even supportive for risk assets – on the view that the Fed would cut again in December.

There is also ISM services data today. This is loitering near the 50 number, and again any softer-than-expected release could take some of the bullish pressure off the dollar.

We prefer to see DXY at the top of the 100.25-96.25 three-month trading range. But we need to get more information on the slowing US jobs market to cement the top of this range.

*Chris Turner*

## ➔ EUR: The pain trade continues

EUR/USD continues to grind lower as it has for the last week. Rate differentials have not moved much at all this week and in fact have been mildly supportive for EUR/USD. But other factors are at play. At the start of the week, we had wondered whether the tightness in US money markets had been playing a role here. Padhraic Garvey discusses this in today's [Rates Spark](#). However, overnight borrowing at the Fed's Standing Repo Facility has come down a little this week, suggesting some improvement in conditions. We had also wondered whether Alphabet's €6bn multi-tranche Reverse Yankee deal this week might have been depressing EUR/USD. This deal settles tomorrow, so its impact, if any, should be over soon.

Instead, it looks more like demand for dollars as investors pare back pro-risk positions is catching EUR/USD in the cross-fire. Additionally, we think EUR/USD is probably being dragged lower by GBP/USD. Here, UK Chancellor Rachel Reeves' speech yesterday, viewed as a budget without any data, has been seen as laying the groundwork for a possible tax hike. But Bank of England easing expectations have not moved much this week and the losses in GBP/USD probably have more to do with the global equity correction.

GBP/USD has some decent support at 1.2950/3000, EUR/USD has some support at 1.1450 and let's see what the ADP data has to offer today.

Elsewhere, we have a [Riksbank meeting today](#). Strong growth in the third quarter suggests that the Riksbank has finished easing at 1.75%. Money markets are pricing unchanged rates for the majority of 2026 and then a hiking cycle. Were it not for the difficult external environment, we would say EUR/SEK risks were on the downside today. But like the Norwegian krone, the Swedish

krona underperforms in an equity sell-off. However, we suspect EUR/SEK sellers will re-appear should it make it anywhere near the 11.08/11.10 area. We're bullish on SEK into 2026.

*Chris Turner*

## ➔ CZK: Inflation will confirm the CNB's balanced approach

This morning at 0900CET, the Czech Republic inflation figures for October will be released. We expect a small pick-up from 2.3% to 2.4% YoY and core inflation should jump from 2.8% to 2.9% YoY. Although the central bank is not providing monthly figures for October inflation due to the new forecast being released tomorrow, we still should remain well below the quarterly forecast as in previous months. The main unknown is food prices, which were behind the previous downward surprises and we could see some upward correction in October.

However, today's figure should not significantly change the balanced approach of the Czech National Bank and tomorrow's meeting. [A rate move is not on the table](#) and is unlikely to change the forward guidance, which seems more balanced than we saw in the summer. Similar to other currencies in the region, the CZK saw some downward pressure yesterday amid global risk-off, and climbed to its weakest levels since early October. Still, we do not expect EUR/CZK to go far from current levels given the balanced CNB's forward guidance.

*Chris Turner*

## ⬆️ PLN: National Bank of Poland continues its rate cuts

The National Bank of Poland is [likely to cut rates again](#) by 25bp to 4.25% today after lower-than-expected inflation in October. Today, we will watch the statement to see if anything changes to the "rate adjustment" wording and what the new inflation forecast will show given the lower numbers in recent months and the government's freeze on energy prices for the coming months. But tomorrow's press conference by Governor Adam Glapinski will be key. The market is pricing in the terminal rate at 3.66% at the moment, slightly below our forecast of 3.75%, but still within the range of possible steps.

However, the governor recently mentioned 4% as the first opportunity to stop the cutting cycle and the economy is really running well and does not call for further rate cuts. Therefore, there is a risk of some hawkish repricing, although the last press conference revealed a different picture. Therefore, it is difficult to have a strong conviction at the moment on unclear NBP communication, but EUR/PLN seems like a non-story. We see the currency pair stuck in the same range of 4.230-270 and the current narrative does not provide enough reason for a new direction. Given the weaker PLN levels after yesterday's move, we see more downside for EUR/PLN.

*Chris Turner*

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