

FX Daily: EUR/USD enjoys Schnabel snapback

FX markets have gone into today's US Thanksgiving holiday in a corrective mood. Yesterday's bounce in EUR/USD was helped by comments from the ECB's influential Isabel Schnabel pouring cold water on ideas of a 50bp ECB rate cut in December. There's also quite a lot going on in France, Korea, Brazil and Mexico. We don't think the dollar needs to correct far



The ECB's Isabel Schnabel

➔ DXY: Largest one-day correction since early August

The DXY dollar index yesterday suffered its largest one-day correction since early August. It was not that yesterday's US data was particularly soft, but we suspect there were a couple of factors in play. One was some less dovish comments from the ECB's Isabel Schnabel (see below) and the other was probably some buy-side end-month rebalancing flows. For example, looking at a global equity portfolio in dollar terms, the S&P 500 is up 5.1% month-to-date. The Eurostoxx 50 and Japan's Nikkei 225 are both down 1.9%. Looking at a global aggregate bond portfolio, the US is up 0.65% month-to-date, core Europe is -1.0-1.5% and Japan is flat. This means that fund managers will have been re-adjusting non-USD portfolios upwards to bring them back to desired benchmarks. Presumably, some of this activity took place in the more liquid markets yesterday than waiting for

Thanksgiving-thinned conditions.

Also worth mentioning overnight is the Mexican peso rallying 1% after President-elect Trump posted that he'd had a "wonderful conversation" with Mexico's President Claudia Sheinbaum. Trump concluded that she had agreed to effectively close the border with the US, while her post seemed to reflect a different conversation. Rather than signalling the all-clear for Mexican asset risk, probably the strongest takeaway is that volatility is here to stay. For example, USD/MXN three-month realised volatility is now 15%. This compares to 7% back in March. Volatility is the enemy of the carry trade and at these kinds of volatility levels, don't expect the peso to benefit from carry trade inflows anytime soon.

Back to the dollar. Some possible mild negatives exist from the Israeli-Hezbollah ceasefire opening the door for a calmer period in the Middle East and some softer US macro data next week building back expectations of a 25bp Fed rate cut in December. Nearly 17bp of that 25bp cut is currently priced. However, high US interest rates (4.61% one-week deposits), European politics (see below) and the threat of more tariff social media posts coming through should keep the dollar bid on dips.

We think DXY can find support near 106.00, but would have to change our multi-week views if it started trading sub 105.70.

Chris Turner

📌 EUR: Schnabel pushes back against 50bp in December

EUR/USD found some support yesterday from a detailed interview given to *Bloomberg* by the ECB's influential Isabel Schnabel. A few of her comments stood out such as there was no need to take rates into accommodative territory (seen as sub 2%), the neutral ECB interest rates may be in the 2-3% area (2.00/2.25% is the commonly seen neutral rate) and that easing should be gradual. Her pushback against a 50bp rate cut in December has helped market pricing for that meeting move in from 38bp last week to 28bp today. That has helped the 'Atlantic' rate spread narrow some 8bp and provided some support for EUR/USD. This spread could narrow further if the Fed cuts 25bp in December (ING house view) and the ECB only cuts 25bp (50bp is currently the house view).

But before we call for an extension in this EUR/USD correction, we should be wary of developments in French politics. Marine Le Pen's faction may well pull the plug on Michel Barnier's government next week over a budget vote. The French-German sovereign 10-year sovereign bond spread has widened to levels last seen in 2012, which is worrying for the euro and a reminder that any chance of fiscal support from either France or Germany is remote. Indeed, we are surprised that EUR/CHF managed to edge higher yesterday and instead we can see it returning to the 0.9200/9210 area, where SNB bids may be waiting.

On the eurozone calendar today is the European Commission confidence data for November (downside risks) and German inflation (expected to tick higher). 1.0565/0580 may be the top of the short-term trading range and we favour EUR/USD drifting back to 1.0500 in quiet markets.

We'd also recommend reading our trade team's article on [Europe's response to Trump's tariffs](#), especially since Christine Lagarde has a big interview in the *Financial Times* on this subject today.

Chris Turner

📌 CEE: The problem is the zloty and the koruna, not the forint

Today we begin a two-day calendar of GDP prints in the CEE region for the third quarter, which should provide details of the flash estimates previously released. Data will be published today in Poland and tomorrow in the Czech Republic and Turkey, and the rest of the region will see data next week. The composition should confirm that household consumption slowed in the third quarter, fixed investment declined and net exports had a negative contribution to economic growth last quarter. We also expect changes in inventories had a positive impact on GDP. Still, economic growth is based on one engine i.e. consumption.

In the markets, we see a very mixed picture in CEE FX. While EUR/USD bounced up, CEE currencies weakened yesterday. Although EUR/PLN and EUR/CZK managed to somehow consolidate during the day EUR/HUF found new highs near 413. The weakening HUF has been a theme for the markets for a few weeks now and positioning is clearly short here, we believe the rest of CEE should follow suit and the bigger question is why PLN and CZK are so resistant.

EUR/USD is down 5% since early October and HUF has lost roughly the same against EUR. On the other hand, PLN and CZK have only lost 0.7% and 0.9% since then. Thus, we believe the problem is on the PLN and CZK side rather than with the HUF. Of course, the local story is not supportive in Hungary for FX, but we believe the rest of the region will sooner or later follow the HUF depreciation in response to the US election and the new environment for CEE FX.

Frantisek Taborsky

📌 BRL: Real hits four year low on fiscal concerns

The Brazilian real has softened to the weakest levels since the pandemic-era sell-off in early 2020. If the real did not have enough to worry about with the threat of a global trade war, President Lula's foot-dragging on fiscal reforms is adding to the woes. Here his plans to raise income tax exemptions for the poor are eating into fiscal consolidation plans and leaving Brazilian assets on the ropes.

Overnight, it looks like the government has announced BRL70bn of spending cuts after all (there had been fears that this would be delayed), but let's see whether that is enough to stabilise the real. Additionally, in the back of investors' minds, is that 2026 is an election year and that the current fiscal laxity is just a warm-up to events in 2025.

In our recent USD/BRL update in FX talking, we revised our [12-month USD/BRL forecast to 6.25](#) which seems to be the direction of travel.

Chris Turner

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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