

FX Daily: European FX remains immune to geopolitical noise

Trump's change of tone on Ukrainian territory and suggestion to shoot down Russian planes violating NATO airspace have had no impact on European currencies, although they raise downside risks. Macro events look unlikely to steer volatility today. On central bank news, the Riksbank surprised with a cut yesterday, but should be done with easing



Sweden's central bank surprised markets with a 25bp cut on Tuesday

➔ USD: No surprises from Powell

Fed Chair Jerome Powell broadly reiterated his cautious view yesterday, signalling there is some balance between downside employment risks and upside inflation risks. The result is still a more hawkish tone by the chair relative to the FOMC consensus, as expressed by the median Dot Plot.

We also heard from the Fed's Michelle Bowman yesterday, and her remarks were predictably more dovish. She tried to convey a greater sense of urgency to act to support the jobs market, which probably mirrors the generalised view of Fed doves.

The dollar broadly stabilised yesterday, being only slightly offered against the euro as US and

eurozone PMIs diverged. The US composite index dropped more than expected, one full point to 53.6. This is still a respectable figure and probably indicates that concerns are somewhat isolated to the job market rather than broader business sentiment.

We retain a moderate bearish bias on the dollar this week, although a quiet day for data and Fedspeak today (only Mary Daly is due to speak) means we could see FX volatility ease further and the dollar hover close to the current level in most G10 crosses.

Francesco Pesole

➔ EUR: Unreactive to Ukraine headlines, for now

The euro is hovering around 1.180 in line with our call for this week, and is still unresponsive to geopolitical headlines. President Trump said yesterday that he believes Ukraine can win back all of its territory against Russia. While that is a significant change of tone, markets have been treating Trump's comments on the matter with caution due to a lack of progress in peace negotiations so far.

If anything, there are downside risks for the euro and even more for higher-beta European currencies as Trump told EU allies to shoot down Russian planes violating NATO airspace.

On the macro side, today's focus will be on the German IFO after strong PMIs yesterday. We remain moderately bullish on EUR/USD in the near term, although we doubt it will be smooth sailing to 1.200 from here.

Francesco Pesole

➔ SEK: Riksbank surprise cut was probably the last

The Riksbank surprised with a 25bp rate cut yesterday, bringing its policy rate to 1.75%, in a move explicitly aimed at supporting the economy and backed by a stronger conviction that inflationary bumps are temporary in nature.

Still, updated rate projections show this is the bottom of the rate-cutting cycle. That triggered a surprisingly positive reaction by the krona.

We were not expecting a cut this week and now definitely agree the Riksbank is at its terminal rate. What could tilt the balance towards further rate cuts is further broad-based deterioration in the jobs market or major inflation undershoots. Neither is part of our baseline for now.

Our short-term valuation model shows around 1.5% undervaluation in EUR/SEK, meaning further drops from here will be harder to justify. We could see some bumps back above 11.10, in the coming weeks, before settling back below 11.0 by year-end. In the longer run, we agree with the Riksbank's assessment that the krona remains undervalued, and this rate cut does not materially change our downward-sloping forecast for EUR/SEK into mid-2026.

Overnight, it was announced that Riksbank's Deputy Governor Anna Breman will become the new Reserve Bank of New Zealand governor from December. We don't see major implications for either central bank, as Breman briefly stood out on the dovish side in 2023 but has since been rather neutral. The RBNZ might also even be done with cuts by the time she joins (markets pricing in 60bp of easing by November).

Francesco Pesole

CZK: Focus on forward guidance and sensitivity to inflationary pressures

The Czech National Bank is likely to leave [rates unchanged](#) at 3.50% today. At the same time, the central bank will not present a new forecast this time. However, attention will be focused on forward guidance. Central bankers have made it clear in interviews in recent weeks that the cutting cycle is over. We will therefore be monitoring the forward guidance for sensitivity to potential inflationary problems in the coming months.

The hottest topic should be wages, which surprised significantly upwards in the second quarter compared to the CNB's forecast, while the government's actions are also pushing wage growth next year above the central bank's forecast. Added to this is a hot real estate market, volatile food prices, and inertia in service prices. Although we do not expect the CNB to raise rates in the near future, we believe that the next move will be a hike and the market should price in some probability in the 1-2 year horizon.

Overall, conditions for FX remain supportive. The CNB was the first central bank in the CEE region to complete its cutting cycle, and we believe it will be the first to raise rates. The rate differential against the EUR should continue to widen, while global conditions are also supportive for the CZK. We therefore remain bullish and believe it is only a matter of time before EUR/CZK tests 24.00.

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