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FX

FX Daily: Fed needs to deliver for dollar bears

All eyes are on tonight's Fed meeting, where a 25bp rate cut is widely expected. The dollar has been selling off ahead of this event, but there are a few risks. For example, we could see short-dated US rates back up a little and the dollar get a brief bid if the Fed Dot Plots continues to show just 50bp of rate cuts this year compared to the 70bp now priced



📉 USD: Bumpy ride on the Fed roller coaster

It's FOMC day, and the Fed is [widely expected to cut rates by 25bp](#). There are many moving parts to today's meeting, but let's go through a few of them. First at 20CET, we'll get the FOMC statement and an update of the [Summary of Economic Projections](#) (SEP), which includes the Dot Plots on median expectations for the Fed Funds rate over 2025, 2026, 2027 and the longer term. In the statement, beyond the 25bp cut, we'll be looking for a phrase like 'In considering additional adjustments to the target range' which the Fed used last year to signal a succession of cuts. The alternative: 'In considering the extent and timing of additional adjustments', would reflect hesitancy and lift short-dated rates and the dollar. The statement will also show the voting pattern, which could be something like eight for a 25bp cut, three for 50bp (Waller, Bowman, Miran) and perhaps one for unchanged rates (Schmid).

On the Dot Plots, the majority of economists think the median 2025 Dot Plot will continue to see just two cuts – i.e. policy ending the year in the 3.75-4.00% target range from 4.25-4.50% now. This could be a problem for the short end of the US curve, which prices 70bp of rate cuts. Expectations are that the 2026 Dot will add one extra cut to the June projection, so it would shift to 3.25-3.50%, while the 2027 Dot would also shift by one cut to 3.00-3.25%. In short, the Dot Plot could show a slower trajectory of getting to 3.00-3.25% compared to current pricing of that zone being hit late next summer.

After the statement/SEP at 20:30CET, we'll get Chair Jerome Powell's press conference. A market widely bearish on the dollar will want to hear greater concerns over the jobs market and less concern over tariff-induced inflation. He'll probably highlight that monetary policy can become slightly less restrictive, but stop short of suggesting any urgency to cut rates more deeply.

The dollar is going into this meeting on the soft side as the Fed prepares to restart its easing cycle. There are some upside event risks to the dollar from the Dot Plot – and perhaps from Powell's press conference too. Nonetheless, today should confirm that the Fed is embarking on a 125bp easing cycle. We would see any upside spike in the dollar as temporary and corrective – eg, DXY sellers could re-emerge in the 97.50/98.00 area. And we doubt a slightly more gradual easing cycle than the market expects needs to trigger a sharp re-pricing of risk assets.

Alternatively, if Chair Powell throws in the towel on the inflation threat and wholly focuses on the need to prevent job losses with precautionary rate cuts, DXY can just break down towards a near-term target at 95.

Chris Turner

EUR: Range break-out

EUR/USD has broken to the topside of a 10-week trading range, and it looks hard to resist the move. Two-year EUR:USD swap rate differentials have narrowed around 50bp in favour of the euro over those 10 weeks. As above, tonight's FOMC will be the dominant theme now, and we'd expect good demand for EUR/USD on any corrective dip to the 1.1750/1780 area during Powell's press conference. Seasonality now builds against the dollar – especially in November and into December – and 1.1910 looks like the final resistance level before 1.20 is hit.

For today's European session, look out for the ECB's release of its wage tracker index. The last release showed wage agreements down at 1.7% in 1Q26 from 4.6% in 1Q25 and the ECB will be interested in whether this has picked back up to 2.0% given improving business optimism this summer. For reference, investors currently price just 11bp of ECB easing by next summer. We think the easing cycle is over.

Chris Turner

➔ **GBP: Fiscal policy remains the weakest link**

The rug was pulled from under the sterling rally yesterday when the *Financial Times* reported that the Office for Budget Responsibility had indeed lowered its productivity forecasts for the UK economy. This will deprive Chancellor Rachel Reeves of expected revenues and potentially add £9bn to the fiscal gap she faces in November's budget.

The negative event risk of November's budget is offset by the recently turned hawkish Bank of England. Sterling has sold off this morning on a slightly sub-consensus August CPI services reading at 4.7%, even if the BoE's preferred measure of services inflation has remained unchanged at 4.2% YoY.

We think the dollar will be the dominant FX theme, and GBP/USD should find support near 1.3600 before being dragged above 1.37. Sterling's fiscal vulnerability looks more like a story for EUR/GBP. Yet a still hawkish BoE ([see tomorrow's event risk](#)) may mean EUR/GBP continues to trade in a 0.8650-0.8715 range.

Chris Turner

➔ **CAD: Today's Bank of Canada cut not the last**

Markets are fully pricing in a 25bp rate cut by the Bank of Canada today. As discussed in our [preview](#), that is also our call. Yesterday, Canada reported headline inflation at 1.9%, below the 2.0% consensus, while core measures were unchanged at 3.0/3.1% as expected. It's an inflation picture that isn't concerning enough to prevent a resumption of rate cuts, given the backdrop of job market deterioration. Unemployment has reached 7.1%, the highest since 2021, the economy contracted by -1.6% QoQ annualised in the second quarter, and activity surveys point to further downside risks.

We expect another cut by the BoC in December, which is now also almost fully priced in. The BoC has kept its guidance very open-ended, and we doubt policymakers want to push back against easing bets at this meeting. The reaction in CAD today may not be that significant as markets retain strong data dependence for any material adjustments in rate expectations. We retain a bearish bias on CAD against most of the G10, although USD weakness can keep USD/CAD stable or slightly offered around 1.37.

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